

Doctoral dissertation  
at the Zeppelin University

**A new approach to develop  
a decision-making process for corporations’  
internationalization and market exploitation strategies**

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## List of Abbreviations

ANFAVEA	Associação Nacional dos Fabricantes de Veículos Automotores [National Association of Motor Vehicle Manufacturers]
APEX	Agência Brasileira de Promoção de Exportações e Investimentos [Brazilian Trade and Investment Promotion Agency]
ASEAN	Association of Southeast Asian Nations
BMW	Bayerische Motoren Werke
BOI	Board of Investment
CB-SEM	Covariance-based Structural Equation Modeling
CIA	Central Intelligence Agency
EU	European Union
FBU	Fully Built Up vehicles
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IPI	Imposto sobre Produtos Industrializados [Tax on industrialized products]
LBI	Local Buyer Index
M&A	Mergers and Acquisitions
MB	Mercedes Benz
Mercosur	Mercado Común del Sur [Southern Common Market]
ML	Maximum Likelihood
OEM	Original Equipment Manufacturer
OLS	Ordinary Least Squares
PEST	P-Political, E-Economic, S-Social, T-Technological
PLS	Partial Least Squares
PLS-SEM	Partial Least Squares Structural Equation Modeling
SEM	Structural Equation Modeling
US	United States
USD	US Dollar
VIF	Variance Inflation Factor

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## **General Acknowledgements**

### **1. Language**

American English

### **2. Punctuation of numbers**

A full point (.) is used as a decimal point.

Left of the decimal point, four or more digits are grouped into threes separated by commas.



## **1.Introduction**

Globalization is altering the international economic environment. To remain competitive and gain future competitive advantage, corporations need to operate successfully in an international context. Exploiting the potential offered by the increasingly global economy requires the effective capture of markets. Although the world economy is becoming globalized, some international markets continue to have high entry barriers and are thus closing themselves off to foreign companies. These barriers impede access to these markets and thus hamper corporations from adequately exploiting them. However, corporations should by no means allow these markets to lie fallow since this would deprive them of the possibility to participate in prospective growth markets. Corporations must consequently promote adequate internationalization and engage in market exploitation strategies to remain successful in an internationally competitive environment.

It is the aim of this research to support corporations within the processes of internationalization and market exploitation. Therefore, the research explicitly focuses on developing an encompassing model that supports corporations in identifying markets, which, in order to be exploited effectively, require local production activities. Typically, this entails markets that show foreclosure tendencies. A decision-making process model for corporations' internationalization and market exploitation strategies structured in different phases is developed, and relevant influencing factors are compiled and assigned to the appropriate phases. The process model, which aims to enable corporations to follow a structured internationalization and market exploitation approach by analyzing the most decisive influencing factors at respective process phases, is thereby targeted at empowering corporations to adequately exploit the potential the globalizing world economy offers.

Internationalization strategies of corporations have been studied extensively. Research has examined various aspects as to why corporations are internationalizing and which market exploitation strategies they should implement to exploit international markets effectively. Country- and location-specific aspects have been studied primarily within international trade theory (see for example Ohlin, 1952; Ricardo, 1817; Smith, 1776) and location theory (see for example Jahrreiß, 1984; Lösch, 1940; Meyer, 1960; Tesch, 1980); competition-specific aspects have been studied within the monopolistic rent (see for example Hymer, 1976; Kindleberger, 1969) and oligopolistic theories (Knickerbocker, 1973); product-specific aspects have been dealt with in the product life cycle theory (Vernon, 1966, 1974); behavior-oriented aspects have been analyzed within the internationalization process model (Johansson

& Vahlne, 1977, 1990); and firm-specific aspects have been reflected upon in detail within the transaction cost (see for example Coase, 1937; Teece, 1981, 1986; Williamson, 1975) and internalization theories (Buckley & Casson, 1976). These theoretical concepts as well as several empirical studies that have been undertaken in this field of research (see for example Alcácer, Dezsó & Zhao, 2015; Buerki, Nandialath, Mohan & Lizardi, 2014; Helm, 1997; Sakarya, Eckman & Hyllegard, 2007) provide valuable insights about corporations' motives for promoting internationalization and their implementation strategies. Further, these studies have identified important influencing factors that determine corporations' internationalization and market exploitation processes. In addition, analyses of corporations' timing strategies, namely when to enter markets, have been undertaken and provide interesting insights about the advantages and disadvantages of these strategies (see for example Berger, 2005; Lymbersky, 2008; Oelsnitz, 2000). Moreover, process models have been drafted that structure the internationalization and market exploitation strategies of corporations in different phases (see for example Aharoni, 1966, 1999; Gann, 1996; Sternad, Höfferer & Haber, 2013). However, a comprehensive decision-making process model that effectively supports corporations during the process of internationalization and 1) includes all relevant aspects of a corporation's internationalization strategy that need to be considered, 2) is reasonably divided into different process steps, and 3) demonstrates practical applicability has not been developed so far (see for example Canabal & White, 2008; Hill, Hwang & Kim, 1990; Morschett, Swoboda & Schramm-Klein, 2008). The aim of this research is thus to develop a comprehensive decision-making process model to effectively support corporations during the process of internationalization.

This work is structured as follows: Chapter 2.1 elaborates on opportunities and challenges implied by globalization for internationally operating corporations. Chapter 2.2 introduces various market entry strategies.

The third chapter provides an overview of theoretical concepts that have been developed to explain the internationalization of corporations. Chapter 3.1 presents classical theories such as international trade and location theory. Chapter 3.2 introduces industrial economics theories such as the monopolistic rent theory, the product life cycle theory, and the oligopolistic reaction theory. Chapter 3.3 discusses the internationalization process model, and Chapter 3.4 outlines theories of the firm such as the transaction cost theory and internalization theory. Chapter 3.5 links ideas from the strategic management literature to concepts of industrial organization. Chapter 3.6 examines Dunning's eclectic paradigm, and Chapter 3.7 undertakes a critical discussion of the presented theoretical concepts. Chapter 3.8 elaborates on timing

strategies corporations can follow within the process of internationalization, taking a corporation-centric perspective as well as a competitive environment perspective. Chapter 3.9 briefly elaborates on success factor research and how it can be applied in the context of corporations' internationalization and market exploitation strategies. Chapter 3.10, the final sub-chapter of the theoretical overview, maps existing phase models that describe the decision-making processes of corporations' internationalization and market exploitation strategies.

The fourth chapter presents the methodological fundamentals of partial least squares structural equation modeling (PLS-SEM), which is the method applied for the empirical investigation portion of the research. Chapter 4.1 explains fundamentals of causal analysis, and Chapter 4.2 describes the causal models' structure. Chapter 4.3 compares two diverse structural equation modeling approaches to estimations of conceptual models and reveals that PLS-SEM is an excellent method for the empirical investigation undertaken in this research. This method is used to examine the decision-making process of corporations' internationalization and market exploitation strategies since it is capable of assessing complex models with various indicators of great statistical power (Hair, Hult, Ringle & Sarstedt, 2014). Finally, Chapter 4.4 explains how the model's quality can be assessed.

The fifth chapter develops the decision-making process model for corporations' internationalization and market exploitation strategies. Relevant influencing factors are determined and assigned to corresponding phases of the process model, and each process phase is conceptualized. In addition, operationalization of each process step is conducted to show how the conceptual model is empirically analyzed.

Chapter 6 outlines the empirical analysis and evaluation of the conceptual model. Chapter 6.1 briefly explains the method of investigation, namely that an empirical investigation is carried out to assess whether the established conceptual model — the decision-making process model for corporations' internationalization and market exploitation strategies — can be verified empirically. Experts of the automotive industry who deal with internationalization processes in their daily business routines were asked to evaluate the developed model by answering a questionnaire. Chapter 6.2 empirically evaluates the measurement models and discusses the evaluation results. Chapter 6.3 presents the empirical evaluation of the structural model and discusses the empirical results. Chapter 6.4 draws conclusions about empirical findings related to the overall conceptual model.

The concluding chapter begins with a synthesis of the empirical results. Chapters 7.2 and 7.3 elaborate on theoretical and managerial implications, respectively, that can be derived from

the developed decision-making process model for corporations' internationalization and market exploitation strategies. Chapter 7.4 outlines the studies' limitations and presents points of reference for future research.

## **2. Internationally operating corporations in the global economy**

### **2.1. Globalization: an opportunity for internationally operating corporations**

Globalization significantly influences the world economy. Economic powers are beginning to shift from the traditional triad markets of Western Europe, the United States (US), and Japan towards emerging countries such as China, India, Association of Southeast Asian Nations (ASEAN) countries, and countries in the Mercado Común del Sur (Mercosur), or Southern Common Market, region.

These emerging markets already contain most of the world's population, and this trend is set to continue. Expected population growth across countries and regions will remarkably shift the relevance of international markets (Robock, 2005). This will be underlined by the following analysis.

From 2015 to 2035, the population of the Euro 5 (i.e., Germany, United Kingdom, France, Italy, and Spain) is anticipated to increase by 11.4 million. During the same period, the US population is forecast to grow by 48.2 million. Looking at emerging markets, the picture is quite different. From 2015 to 2035, the population in the Mercosur region is projected to increase by 65.2 million. The ASEAN region's population is projected to grow significantly by 115.2 million. The most striking number comes from India, with an expected population increase of 243 million (see figure 1) (IHS Global Consumer Markets, 2015; IHS World Economic Forecast, 2015). These expectations for population growth worldwide provide an indication of where future consumers may be located.

A second important component to consider when analyzing the relevance of international markets is income level since this determines whether a growing number of people in emerging markets will be empowered to actively participate in the global economy. It is thus income level that significantly characterizes a population's demand patterns. Estimates show that individual incomes are rising. While the growth of individual income in the ASEAN region is predicted to be moderate, with an expected increase of 5,700 US dollars (USD) from 2015 to 2035, predictions for India are slightly higher with an expected increase of 7,600 USD (see figure 1). The estimated income increase in the Mercosur region is 9,200 USD. In

China and Russia, growth is expected to be significant, with increases of 10,900 USD and 13,000 USD, respectively. In addition to increasing individual incomes in emerging countries, it should not be overlooked that individual incomes in industrialized countries such as the Euro 5 and the US are also projected to rise. Whereas a rise of 11,900 USD is expected in the Euro 5, for the US, a stark augmentation of 31,200 USD is anticipated (see figure 1) (IHS Global Consumer Markets, 2015; IHS World Economic Forecast, 2015).

*Figure 1: Growth Rates of Macroeconomic Indicators from 2015 to 2035*

		Population		Income per Capita
<b>EURO 5</b>	⇒	+ 11.4 Mil. (+3.5%)	⇒	+ 11,900 USD (+23.4%)
<b>US</b>	⇒	+ 48.2 Mil. (+15.0%)	↑	+ 31,200 USD (+35.4%)
<b>China</b>	⇒	+ 46.2 Mil. (+3.4%)	⇒	+ 10,900 USD (+201.9%)
<b>India</b>	↑	+ 243.0 Mil. (+18.9%)	⇒	+ 7,600 USD (+160.0%)
<b>ASEAN</b>	↑	+ 115.2 Mil. (+17.9%)	⇒	+ 5,700 USD (+92.1%)
<b>Mercosur</b>	↑	+ 65.2 Mil. (+15.8%)	⇒	+ 9,200 USD (+69.0%)
<b>Russia</b>	⇒	- 11.9 Mil. (-8.4%)	⇒	+ 13,000 USD (+98.3%)

Source: Own figure based on information from IHS World Economic Forecast and IHS Global Consumer Markets, 2015.

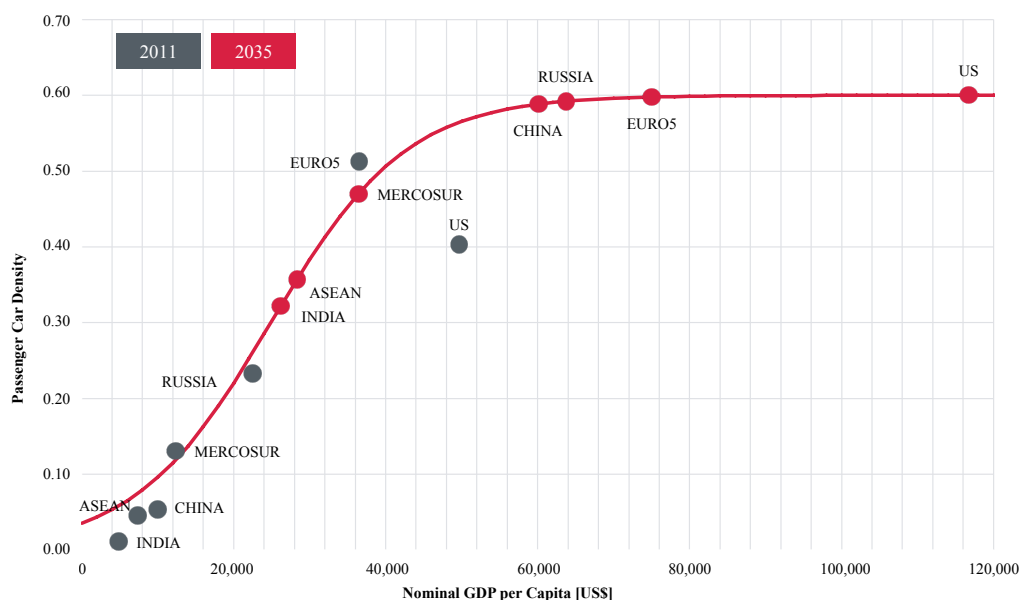
The automotive industry offers the potential to analyze where demand is located and how globalization and the growing importance of emerging markets is changing the state of the art and influencing and altering established demand patterns.

Passenger car density, for instance, is an indicator that indicates the number of cars per person in a country. In 2011, the passenger car density for the Euro 5 was 0.51, which signifies that in the Euro 51 persons out of 100 own a car (see figure 2). In the US, this figure is 0.40, not including light trucks. When analyzing this indicator in emerging markets, the picture is quite different and sharply demonstrates that a majority of the population does not benefit from the

personal mobility gained by owning a car. In the Mercosur region, passenger car density is slightly above 0.13, and in ASEAN and China, this figure is 0.05, which indicates that only five people out of 100 are car owners (see figure 2). In India, the figure is even more striking with a figure of 0.01, which reveals that just one out of every 100 people owns a car. In the next 20 years, however, these figures are expected to change significantly. This refers back to the previously mentioned point that income levels are rising, which will consequently alter demand patterns and influence the number of people in emerging markets that are car owners. Whereas in the Euro 5 passenger car density is expected to increase only marginally to a figure slightly below 0.60 in 2035, the increase in emerging markets will be more noticeable. Passenger car density in India, for instance, is expected to increase from less than 0.01 in 2011 to above 0.32 in 2035. This means that in 2011 one out of 100 people owned a personal car; in 2035, this will be 32 out of 100 people. In ASEAN, passenger car density is expected to increase from 0.05 in 2011 to 0.36 in 2035. In the Mercosur region, an increase from 0.13 to 0.47 is anticipated (see figure 2) (IHS World Economic Forecast, 2015).

This demonstrates that global demand patterns will change significantly so corporations will need to apply adequate strategies to effectively exploit the potential offered by the increasing globalization of the economy.

*Figure 2: Passenger Car Density: An Indicator Demonstrating a Market's Growth Potential*

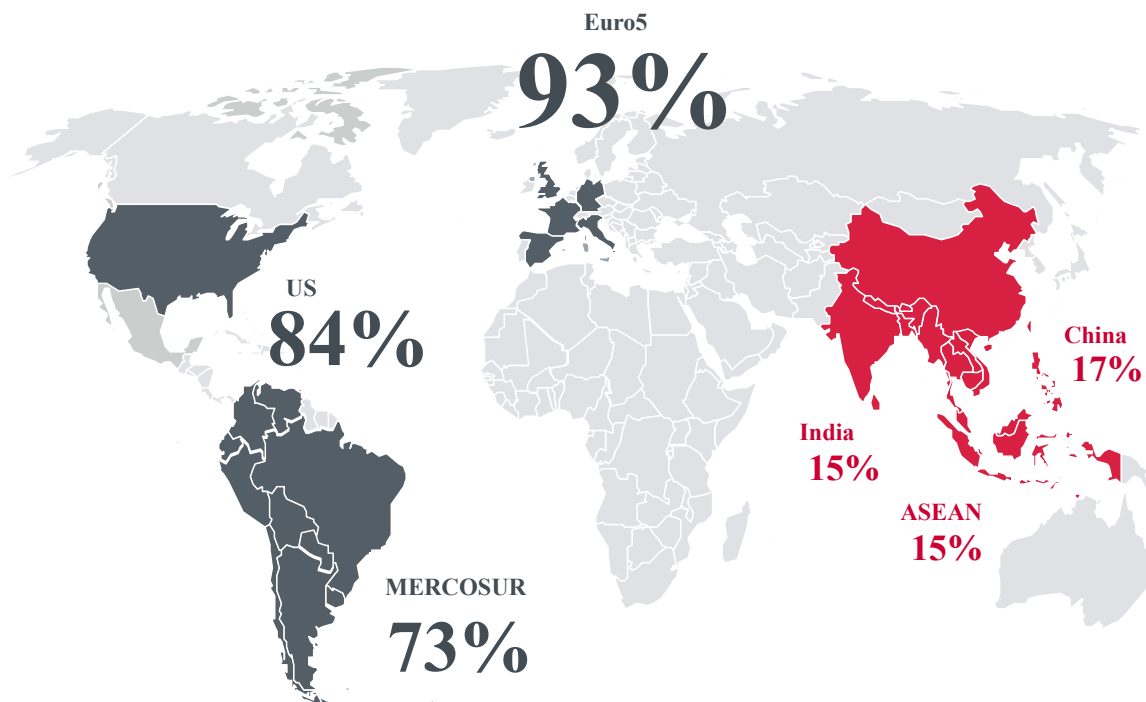


Source: Own figure based on information from the IHS World Economic Forecast, 2015.

The share of replacement purchases is another indicator within the automotive industry that demonstrates well which markets offer growth potential. This indicator specifies how many new car purchases are realized due to replacement reasons only and thus reveals the saturation of markets. Accordingly, if the share is high, the additional market potential is not pronounced; if the share is low, considerable additional market potential exists since a higher number of cars are additional purchases. In the US, 84% of car purchases are replacement purchases. In the Euro 5, this figure is even higher at 93%, signifying additional market potential is low since these markets are virtually saturated. However, the picture that can be drawn from analyzing the replacement purchases indicator for emerging economies is quite different. Whereas in the Mercosur region the share of replacement purchases is quite high at 73%, in Asia, replacement purchases represent a much lower share of purchases. In China, replacement purchases account for 17% of overall car purchases; in India and ASEAN, this figure is 15% (see figure 3). This indicates the potential these markets offer for the automotive industry is immense.

The provided information on replacement purchases was attained during exploratory discussions with a German automotive group. The figures on replacement purchases were communicated during a conversation in February 2015 with an expert from the strategic sales planning unit of a German automotive company. Due to reasons of confidentiality, the name of the expert and the company are not named here. More recent figures for replacement purchases could not be provided since the indicator is not obtained regularly because estimations are rather complicated and require information on many diverse influencing variables.

Figure 3: Replacement Purchases in 2011



Source: Own figure based on information obtained during a conversation with an expert of a German automobile company in 2015.

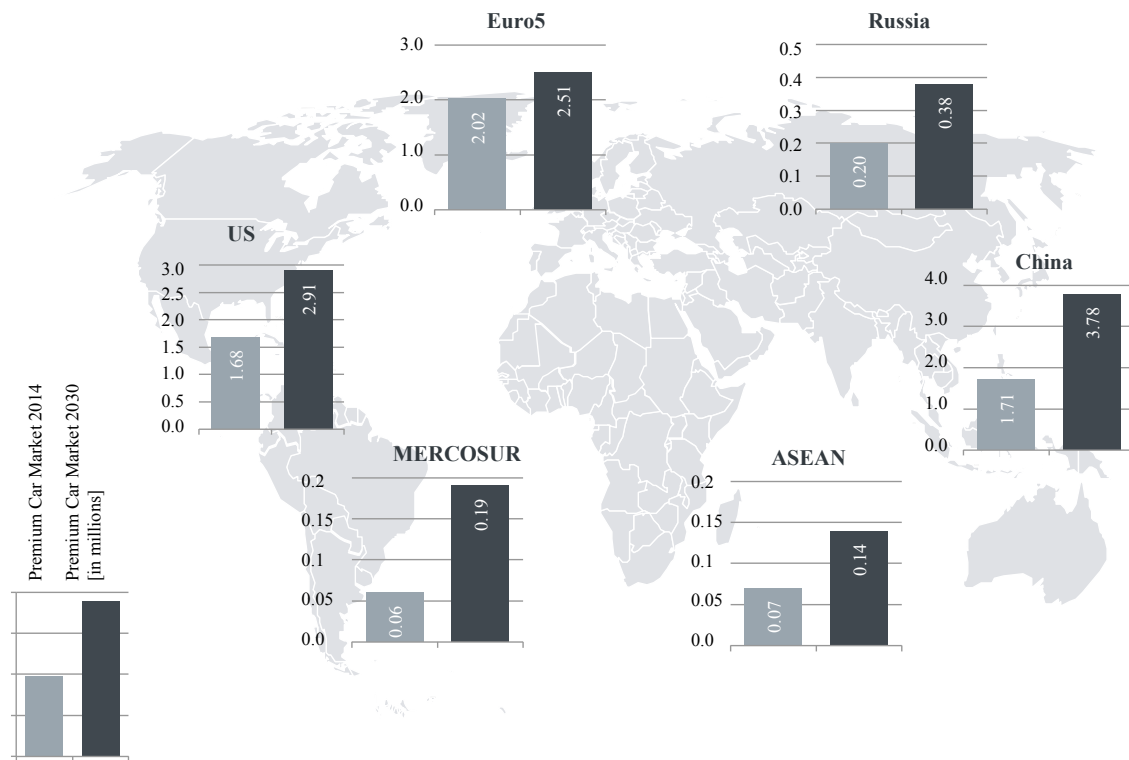
It can be derived from these findings that markets offering enormous growth potential are not the traditional markets that have gained the most attention in recent decades. Emerging markets with growing populations, increasing incomes, and rising demand are showing substantial growth potential (Urban, 2000).

The growing importance of emerging markets for the automotive industry and the potential these markets offer can be further substantiated by analyzing the predicted development of regional automobile markets. The premium car market in the Euro 5, for instance, represented 2.02 million cars in 2014. In 2030, it is expected to reach 2.51 million cars (see figure 4). On the other hand, the ASEAN region is expected to see a doubling of the premium market from 70,000 cars in 2014 to 140,000 cars in 2030. In China, the premium market is expected to more than double from 1.71 million cars in 2014 to 3.78 million cars in 2030. The sharpest growth in the premium market is expected in the Mercosur region, where an increase from 60,000 cars in 2014 to 190,000 in 2030 is predicted, which would imply more than a tripling of the premium market (see figure 4).

This information was also gathered during the conversation that took place in February 2015 with an expert from a strategic sales planning unit of a German automotive company.



Figure 4: Regional Growth Potential of Premium Car Markets (2014-2030)



Source: Own figure based on information obtained during a conversation with an expert of a German automobile company in 2015.

These figures demonstrate that prospective economic growth, including in the automotive industry, will primarily take place in emerging markets and that countries with emerging economies offer great market potential. However, it should be noted that apart from China, absolute figures in emerging countries' premium car markets remain relatively low.

Promising countries with emerging economies, however, often install high trade barriers to protect their local industries, which impede foreign corporations from accessing local markets. Emerging economies such as China, India, Russia, and the ASEAN and Mercosur regions have applied high tariff and non-tariff trade barriers, which hinder foreign corporations from effectively supplying these markets.

Tariff trade barriers hamper foreign corporations attempting to export their products to emerging markets, as high duties must be paid. Duties often imply increased prices for foreign-produced products available in international markets. Conversely, if prices are held constant, the exporting corporation's revenues decrease. Both of these situations distort competitive environments and product flows. An example of the automotive industry demonstrates well how countries have installed tariff trade barriers to control their internal

market structures. When exporting a car from the Eurozone to China, a duty rate of 25% must be paid. The duty rate when exporting a car from the Eurozone to India is up to 125%, and from the Eurozone to ASEAN markets such as Thailand, a duty rate of 80% is assessed. By comparison, the duty paid when exporting a car from the Eurozone to the US is 2.5%, to Australia 5%, and to Japan 0%. This clearly indicates where a liberal exchange of goods is strived for and where product flows are restricted (European Commission, 2015).

In addition, non-tariff trade barriers are often applied, typically by emerging economies, to complicate the import of foreign-produced goods. Such non-tariff trade barriers can be applied in various forms. One form is an additional tax burden applied to imported but not locally produced products. For example, Brazil in 2014 increased the IPI (Imposto sobre Produtos Industrializados), a tax on industrialized products, for imported products only. Prior to this adjustment, the IPI, which had to be paid for every industrialized product, was 13%. In 2014, the tax increased to 43% for imported products. Taxes such as this have similar effects as duties—they impede the import of foreign-produced products and thus complicate market access for foreign producers (Facanha, 2013).

Russia recently implemented another form of a non-tariff trade barrier. The Russian government has obliged foreign car manufacturers to pay a recycling fee for each car they import to the Russian market. Local car manufacturers are exempt from the recycling fee. This non-tariff trade barrier, in the form of a recycling fee, puts foreign car manufacturers in a less favorable position compared to local car manufacturers. It impedes foreign corporations from exploiting the market potential offered by the Russian market by raising the cost of exporting their products to Russia (EuroActiv.com, 2013).

If foreign producers want to exploit the market potential emerging economies offer, they are often forced to adapt their market strategies. It has been shown that tariff and non-tariff trade barriers often close off or complicate access to emerging markets. Duties or other burdens increase the costs for foreign producers to export their products to emerging markets and thus deteriorate the competitive situation of exporters compared to local producers. Consequently, corporations must decide whether local production activities in emerging markets, which would empower them to compete with local corporations in a fair competitive environment, will eventually enhance their international competitiveness.

For the automotive industry, it is thus essential for corporations to enhance their industrial competencies. The enrichment of industrial competencies will be decisive as to whether the “old” automotive industry can successfully manage new challenges with which they are

confronted (Schulz & Wieker, 2016). Adequate processes should be designed and progressive strategies should be drafted so corporations can deal effectively with rapidly changing market environments.

#### *State of the art of the academic discourse*

The economic school, with its main representatives Buckley and Casson (for example 1976, 1998), Dunning (for example 1973, 1977, 2000), Rugman (2005), and Markusen (2002), has attempted to explain why corporations are investing abroad to internationalize their business activities. Researchers have developed explanations as to why particular companies and industries are investing in diverse target markets. In 1993, Dunning established a categorization system that distinguishes among four types of foreign direct investment (FDI): resource-seeking, strategic asset-seeking, efficiency-seeking, and market-seeking FDI (Wortmann, 2008). Corporations willing to exploit natural resources abroad make investments in countries with abundant natural resources, thus make a resource-seeking investment. When host countries have strong strategic assets such as a high level of innovative technological know-how and expertise, investing companies can benefit from this and may participate in strategic asset-seeking FDI. Corporations that benefit from, for example, low production costs participate in efficiency-seeking FDI. However, if companies want to exploit the potential that international markets offer, they make a market-seeking investment (Alcantara & Mitsuhashi, 2012).

In 2010, Morschett, Schramm-Klein, and Swoboda conducted a meta-analysis to determine the main drivers for foreign investments. They found market attractiveness to be the predominant factor for companies' decisions to invest abroad. Exploiting the potential of foreign markets is thus the primary reason why corporations make foreign investments. Accordingly, markets characterized by high market attractiveness and great potential are the primarily recipients of high investment inflows since foreign companies are willing to fully access these markets to exploit them effectively. Countries perceived as closed markets due to tariff or non-tariff trade barriers are often targeted first (Andersson, 2004).

Correspondingly, the present research focuses on market-seeking FDI and examines why, where, and how corporations make foreign investments. As discussed above, since many markets, especially emerging markets with significant potential, cannot be exploited efficiently from abroad by following an export strategy, investments are often made to realize local production activities. In many cases, local production activities alone allow foreign corporations to effectively exploit the potential of emerging markets. Consequently, the

remainder of the present work focuses on market-seeking investments, specifically investments in local production activities intended to exploit the potential of international markets in an effective manner.

Accordingly, corporations must conduct challenging analyses when investigating which emerging markets require local production activities to be exploited effectively. On one hand, triad markets, which have long been main sales markets, are increasingly saturated, implying that corporations need to find new ways to open up new markets to stimulate new and additional sales. These analyses are also problematic because while emerging economies offer enormous growth potential, access to these markets is often closed to foreign corporations, which implies that exploitation is achievable only via a local investment strategy (Alcantara & Mitsuhashi, 2012).

To remain competitive in the current global economy, corporations must make the critical decision within the process of internationalization to concentrate on international markets that offer the greatest potential. This requires a considerate selection process and a successful implementation of an appropriate and effective investment strategy to capture these markets (Sternad et al., 2013, p. 41 et seq.). Therefore, the aim of this research is to conduct an in-depth analysis to determine how corporations' internationalization and market exploitation decision-making processes should be structured and which determining factors must be considered when evaluating which emerging markets should be exploited by implementation of local production activities.

This research investigates the internationalization process of corporations in the context of the automotive industry. It develops a conceptual decision-making process model, which is examined through the empirical investigation of a German automotive group. There are two reasons for choosing this industry branch. First, the automotive industry experiences immediate effects during an economic upsurge. When income levels rise, demand for personal mobility increases so car manufacturers see increasing demand for cars (Dehnen, 2012). Hence, economic upsurges in emerging markets directly and positively affect the automotive industry.

Second, analysis of indicators such as car density or replacement purchases indicates that backlogged demand for personal mobility in emerging markets is huge, suggesting that the potential these markets offer for car manufacturers is immense. This will incentivize manufacturers to further internationalize in order to exploit these markets adequately. Thus,

internationalization tendencies within the automotive industry are expected to intensify further. Especially within the complex context of globalization, the automotive industry will benefit from scientific support to evaluate where and how to internationalize by means of a structured process.

The process model developed in this research project is nevertheless generalizable and can be applied to corporations in various sectors wishing to internationalize.

## **2.2. The choice of market entry strategy**

Internationally operating corporations can enter international markets by implementing various diverse market entry strategies. In principle, however, three main different modes of market entry are applied by corporations entering international markets.

The first option to enter foreign markets is via exports. By following an export strategy, a company can produce products in its home country and export them to diverse international markets.

The second option is to enter foreign markets via FDI. By applying an FDI strategy, a company invests in the target market by building or purchasing a production site or other facility. As the analysis is focused on local production activities, the remainder concentrates on investments in production capacity. A company following an FDI strategy would thus supply the target market with products manufactured in its local facility.

A third strategic alternative to enter foreign markets is contractual market entry. With the implementation of this strategic approach, a foreign company cooperates with a local partner in the target market who carries out local activities. Following the same logic, local production activities are the primary focus of analysis in the following (Lymbersky, 2008, p. 67 et seq.).

Table 1 presents a general overview of the advantages and disadvantages of the three above-mentioned market entry strategies.

*Table 1: Advantages and Disadvantages of Diverse Market Entry Strategies*

Market Entry Strategies	Advantages	Disadvantages
Export Strategy	<ul style="list-style-type: none"> <li>• Quick market entry with limited resources</li> <li>• Limited level of risk</li> <li>• Gradual accumulation of market knowledge</li> <li>• Exploitation of economies of scale</li> </ul>	<ul style="list-style-type: none"> <li>• Trade barriers may increase prices for exported goods</li> <li>• Possible production cost disadvantages</li> <li>• Fluctuations of exchange rates can diminish export business revenues</li> <li>• Geographic distance</li> </ul>
Foreign Direct Investment Strategy	<ul style="list-style-type: none"> <li>• Alleviation of trade barriers</li> <li>• Exploitation of market potential</li> <li>• Applicability for governmental incentives</li> </ul>	<ul style="list-style-type: none"> <li>• High level of risk</li> <li>• Quick market exit not possible (or only with high financial losses)</li> <li>• At least moderate level of financial resources required</li> </ul>
Contractual Market Entry Strategy	<ul style="list-style-type: none"> <li>• Quick market entry with limited resources</li> <li>• Limited level of risk</li> <li>• Alleviation of trade barriers</li> <li>• Circumvention of direct investment barriers</li> <li>• Exploitation of market potential</li> <li>• Exploitation of partner's market expertise and network</li> </ul>	<ul style="list-style-type: none"> <li>• Increased coordination complexity</li> <li>• Limited influence on partner</li> <li>• Dependency on partner's performance</li> <li>• Risk of knowledge drain</li> <li>• Limited financial benefits</li> </ul>

Source: Own table.

The following sub-chapters present these three market entry strategies in more detail.

### 2.2.1. Export strategy

Exporting is the most commonly used market entry strategy for expansion into foreign markets. There are two different forms of exporting: direct and indirect. When export is the selected market entry choice, corporations, particularly original equipment manufacturers (OEMs) such as Volkswagen (VW), Mercedes Benz (MB), and BMW (Bayerische Motoren Werke), primarily rely on a direct export strategy. With this strategy, corporations sell their products directly to either the end user or an importer or distributor in the target market. With this type of market entry strategy, corporations have the chance to gain valuable insights about the preferences of their customers. Moreover, they have the opportunity to learn how to operate at the international level and gain experiences that can be leveraged to enter additional foreign markets more effectively. A second option is the indirect export model, which is used negligibly by OEMs wishing to enter foreign markets. For component suppliers, for instance, it has some relevance. The indirect export model entails that a component supplier such as Faurecia sells seats to a German OEM, which is producing cars in Germany. The produced cars, which contain Faurecia's seats, will be exported globally. In this case, Faurecia, the indirectly exporting company, cannot benefit from customer feedback, and no learning effects are possible for future business in foreign markets (Lymbersky, 2008, p. 72 et seq.).

Capturing new markets via an export market entry strategy is the most commonly used strategy as it provides significant advantages over other market entry strategies. First, a

company can quickly enter new foreign markets when applying an export strategy without requiring a large amount of resources, either human or financial. No additional staff in the target market is required, no subsidiary needs to be established, and start-up costs are low. Accordingly, the risk to enter a market via an export strategy is not pronounced. Third, entering a foreign market via export strategy enables a company to enter a new market and gradually accumulate market knowledge such as local preferences and requirements. Products and strategies can be easily adjusted to fit local circumstances without significant costs (Lymbersky, 2008, p. 71 et seq.). Finally, following an export strategy also enables corporations to utilize already established factories to capacity and thus achieve economies of scale.

However, an export market entry strategy also brings some disadvantages. One of the most significant disadvantages is the tariff and non-tariff trade barriers such as custom duties or taxes that often have to be paid when exporting products to foreign markets, which consequently increases the costs of the export business. Trade barriers hence raise the price of the final product in the target market. Trade barriers thus reduce flexibility in the exporting company's price structure. This negatively impacts the company's competitive situation in the target market, as local competitors do not have to include items such as custom duties, and import fees in their calculations. Second, production costs play a role. If these are lower in the target market compared to the country where a company's production is based, it may not be cost-effective to continue production at the more cost-intensive location. Third, fluctuations of the exchange rate may negatively impact financial results of the company in its home country. Finally, taking into account the geographic distance between the exporting company and its customers, this may indicate that the exporting company cannot adequately respond to customers' needs (Meyer, 2000, p. 30 et seq.).

### 2.2.2. FDI strategy

Companies can also enter foreign markets by investing in a local facility such as a production or a distribution center. The analysis included in this work focuses on production capacities as it is primarily centered on whether and how corporations decide to capture emerging markets by undertaking local production activities. It has been shown that the reasons for entering a market via FDI differ from resource-seeking, efficiency-seeking, strategic asset-seeking, and market-seeking aspects, with market-seeking aspects are the most prominent reason for making investments.

A major argument for why foreign firms enter target markets via a foreign investment strategy is that investment in a local production site, for instance, enables these companies to participate effectively in the local market. One of the main reasons why investment in local production enables a foreign company to participate effectively is that it reduces the negative consequences trade barriers pose. In an export scenario, corporations are often confronted with high tariff and non-tariff trade barriers such as custom duties or taxes. Those barriers raise the price of exporting products to international markets. When companies produce locally, these trade barriers no longer apply. As no additional fees have to be paid, the playing field in regard to local competitors is leveled. A foreign investment strategy thus ensures access to the market and enables foreign companies to exploit market potential effectively. Another advantage that an FDI strategy offers is that investing corporations often qualify for local governmental incentives. The specific benefits FDI strategies imply if the drivers are resource-seeking, efficiency-seeking, or strategic asset-seeking are outlined in Chapter 2.1 and are thus not discussed in detail here. The analysis included later has the goal of determining which emerging markets should be captured via local production activities to effectively exploit their potential.

Despite the advantages it brings, an FDI strategy increases risk for the investing company (Lymbersky, 2008, p. 148 et seq.). On one hand, economic risk can occur when economic performance in the target country does not meet expectations. This may mean that planned sales volumes cannot be realized because the market did not develop as anticipated when the initial decision about market entry was made. There is also political risk, which is particularly high in emerging markets as they often have unstable political environments. Changing governmental regulations can directly affect business models and thus pose a major threat for corporations, which generally prefer stable political and governmental conditions. As investments made abroad can be seen as sunk costs, a quick market exit in response to a changing economic or political environment is not feasible without financial losses. Therefore, the level of risk is significant (Perlitz & Seger, 2000, p. 105 et seq.), and at least a moderate level of resources is required to follow an FDI strategy.

There are three options for FDI strategies, which the following sub-sections explain in more detail. One option is to set up new facilities following a greenfield strategy. The second option is to acquire existing facilities following a brownfield or acquisition strategy. A third option is to set up a joint venture with a local company.



### *Greenfield strategy*

One FDI strategy option is the greenfield strategy. While all advantages previously associated with FDI strategies generally apply (see table 1), some major advantages are particularly relevant to a greenfield strategy (see table 2). First, a company wishing to invest in a target market can choose a construction site that best fits its need to successfully run their business abroad. Second, it can build an optimal facility. Third, as the company sets up and steers the entire production or distribution process, it can fully control the processes occurring abroad, meaning that the risk of losing control of technological competences, for instance, is low.

However, a greenfield strategy also has disadvantages. While all disadvantages previously associated with FDI strategies are applicable (see table 1), some are particularly relevant to greenfield strategies (see table 2). Setting up a new facility on a greenfield is extremely time- and cost-intensive. For a company to decide whether to make such a major investment, it needs to evaluate in detail the prospective relevance the market will have for a corporation so as to derive the corporation's commitment to the market. A greenfield investment strategy requires high investment, which implies sunk costs after the investment is completed, thus making the decision irreversible. A quick market exit if the economic performance of the country worsens is thus nearly impossible or implies acceptance of high financial losses for an FDI strategy in general and a greenfield strategy in particular. Further, the long amortization period of an investment has to be considered. Another disadvantage associated with a greenfield strategy is that the investing company will be confronted with cultural differences that may complicate the process of setting up a new facility. For example, countries such as China or Thailand prohibit foreign companies from acquiring property so cooperation with a local partner is necessary. Another disadvantage foreign companies face is the lack of a local network involving government agencies, landowners, and suppliers, which means they need to start from scratch to build such a network in order to establish a successful business model. Further, it should not be overlooked that with a greenfield strategy, a company is required to independently hire and adequately train a new workforce (Lymbersky, 2008, p. 154 et seq.; Perlitz & Seger, 2000, p. 105 et seq.).

### *Acquisition or brownfield strategy*

The second FDI strategy option is the acquisition or brownfield investment strategy. While general advantages associated with FDI strategies apply (see table 1), the brownfield strategy also offers other specific advantages (see table 2). The major advantage associated with this strategy is that a company can very quickly take over an acquired firm. Integrating within an

existing facility enables the acquiring company to set up its business model within a short period of time by retaining all process controls. Moreover, it enables the acquiring company to immediately make use of already existing expertise and networks. In highly competitive markets, where space for new entrants is limited, the acquisition strategy also offers the possibility of quickly gaining market share.

However, taking over a company also involves disadvantages (see table 2). First, the acquisition process is highly complex. Mergers and acquisitions (M&A) experts as well as bankers and lawyers are needed. Second, a significant amount of financial resources is required, as the purchase price for the acquisition must normally be paid immediately when it is realized. Third, an acquiring company takes over not only assets but also all liabilities. From the moment of acquisition, an acquiring firm can be held financially responsible for the acquired firms' liabilities (Lymbersky, 2008, p. 154 et seq.; Sternad et al., 2013, p. 71 et seq.).

#### *Joint venture strategy*

As an additional alternative, a joint venture can be set up. With this FDI strategy, companies enter into a collaborative cooperation. All partners involved have equity participation in the joint venture company. Depending on equity participation, each partner's level of risk and managerial leeway varies. Although the partners of the joint venture remain independent from each other, the established joint venture company is an independent legal entity. Different share-holding structures exist, comprising minority, parity, and majority joint ventures. Some countries such as China have enacted legal requirements that force foreign companies to establish majority joint ventures in which a domestic company has to hold more than 50% of the joint venture company. As all partners have equity participation, the risk of market entry is shared among all partners and thus reduced for individual participants.

By cooperating with local partners, foreign companies benefit from their market knowledge and networks to government agencies, suppliers, and customers. This home advantage means local firms are more assured since they are not confronted with cultural uncertainties or differences—an advantage that should not be underestimated. Another advantage is that joint ventures offer the opportunity for partners to benefit from each other when complementary competences enrich the partners' shared portfolio (see table 2). Of course, the general advantages of FDI strategies also apply (see table 1).

However, there are also negative aspects of joint ventures (see table 2). Conflicts of interests among participating partners are one major argument against joint ventures since these conflicts have the potential to significantly complicate and thus slow down joint ventures'

decision-making processes. Such conflicts make a joint enterprise become less flexible and reactive. Moreover, cultural differences can complicate decision-making processes and joint management of the firm. This entails increased complexity of coordination. The choice of the right partner when entering such a collaborative cooperation is thus critical. Division of profits further increases coordination complexity and poses difficulties for participating firms of a joint venture. Finally, the risk of knowledge drain must also be considered (Dehnen, 2012, p. 95 et seq.; Perlitz & Seger, 2000, p. 109 et seq.).

Table 2 displays the advantages and disadvantages of the three types of FDI strategies. Advantages and disadvantages of FDI strategies in general can be found in table 1.

*Table 2: Advantages and Disadvantages of FDI Strategies*

Foreign Direct Investment Strategies	Advantages	Disadvantages
Greenfield Strategy	<ul style="list-style-type: none"> <li>• Optimal construction site can be chosen</li> <li>• Optimal facility can be built</li> <li>• Complete process authority guaranteed</li> <li>• No risk of knowledge drain</li> </ul>	<ul style="list-style-type: none"> <li>• Time- and cost-intensive</li> <li>• Long amortization period of investment</li> <li>• Cultural differences may complicate local business activities</li> <li>• Non-existence of local networks</li> </ul>
Acquisition or Brownfield Strategy	<ul style="list-style-type: none"> <li>• Rapid set-up of business model</li> <li>• Control can be retained</li> <li>• Existence of market expertise and local network</li> <li>• Potential to gain market share</li> </ul>	<ul style="list-style-type: none"> <li>• Complex acquisition process</li> <li>• High financial resources required</li> <li>• Financial responsibility for all liabilities of acquired firm</li> </ul>
Joint Venture Strategy	<ul style="list-style-type: none"> <li>• Existence of market expertise and local networks</li> <li>• Potential exploitation of complementary competences</li> </ul>	<ul style="list-style-type: none"> <li>• Less flexibility and reactive capacity</li> <li>• Increased coordination complexity</li> <li>• Risk of knowledge drain</li> </ul>

Source: Own table.

### 2.2.3. Contractual market entry strategy

If a company wants to internationalize and cannot choose an export strategy because high trade barriers restrict access to international markets and cannot adopt an FDI strategy because it is unable or unwilling to make a major investment abroad, there is a third choice of market entry, the contractual market entry strategy. One of the main reasons that companies choose this entry mode is that it requires a limited amount of financial and personnel resources for quick entry to foreign markets so the level of risk is limited. At the same time, this strategic approach allows corporations to alleviate trade barriers and/or circumvent direct investment barriers to exploit market potential fully. Finally, working with a local partner enables corporations to exploit the partner's market expertise and network.

However, cooperating with a local partner has disadvantages: it increases coordination complexity and the influence a corporation can exert on the partner is limited, which entails a high dependency on the partner's performance. In addition, cooperating with external partners entails the risk of knowledge drain. Moreover, when cooperating with partners, financial gains must be shared among participating parties, limiting the financial benefit for foreign investing corporations (Perlitz & Seger, 2000, p. 98 et seq.; Sternad et al., 2013, p. 74 et seq.). The three most commonly applied contractual market entry strategies are the implementation of a licensing agreement, international franchise, and contract manufacturing. The following sub-sections present these strategies in more detail.

### *Licensing agreement*

The first option within a contractual market entry strategy is a licensing agreement. In this type of agreement, the licensor, under well-defined conditions, allows the licensee to use its intellectual property rights such as patents or technology to produce and sell the licensor's products in the target market. In exchange, the licensee pays a license fee to the licensor. For compensation, the licensee receives a royalty, which can be a fixed amount per unit, an overall amount, or an amount that reflects a certain percentage of sales, usually around 3-5% (Lymbersky, 2008, p. 79 et seq.). For example, an OEM, the licensor, could commission a local partner, the licensee, to produce its products in the target market. To enable the local partner to produce the OEM's products in the local market, the OEM must transfer technological know-how. At the beginning of the cooperation, the licensor thus provides technical assistance to the licensee to enable the partner to produce the licensor's products. Further, the cooperating partners must, in the licensing agreement, define a transfer of risk. At this transfer of risk, the single parts of what an OEM provides its local partner to enable the partner to carry out the final production process of the OEM's product in the target market become the licensee's property. Thereafter, the licensor's scope of action is limited. Accordingly, the final production process in the target market is only minimally influenced. After completion of the production process, the licensee distributes the products to the local market.

For a licensing agreement to be successful, it is essential that both partners remain motivated during the contractual relationship. This can only be guaranteed as long as the license fee satisfies the licensor and as long as the royalties are high enough to motivate the licensee to produce and sell a certain amount at the required quality (Lymbersky, 2008, p. 79 et seq.).

With the help of this contractual model, the licensor can benefit from local production in the target market without making a major financial or personnel investment. Additionally, it allows a company to enter a new market quickly without extensive knowledge of the market because of the partner's local market expertise. This strategy is often first applied to test markets as the foreign company can gradually gather market knowledge and observe how the target market responds to its products without exposing itself to major risks. Therefore, as with contractual market entry strategies, risk is low. In the case of deterioration of the economic performance of the target market or destabilization of the political environment, the licensor could easily exit the licensing agreement and consequently leave the market without major financial loss (Perlitz & Seger, 2000, p. 100). One further positive aspect, which applies to all three modes of the contractual market entry strategy, is that the licensing agreement allows foreign companies to enter new markets despite the existence of trade or investment barriers that make it impossible to follow either an export or FDI strategy (Sternad et al., 2013, p. 74). At the same time, many countries grant governmental incentives to corporations that enter local markets via licensing agreements.

However, this strategy has some disadvantages (see table 3). The licensor's influence on its licensee is limited, which applies to contractual market entry strategies in general. For example, if the licensee does not produce the licensor's products at the expected quality level, the licensor has a limited scope of action. A low level of quality may have negative consequences regarding the perception of the products and the corporation's image. Moreover, as possibilities to control the licensee are restricted, there is a risk of technological diffusion and knowledge drain, which applies to contractual market entry strategies in general. Another negative consequence of using licensing agreements at an early stage of a firm's internationalization is that license fees are commonly limited to around 5% of the local value-added share, so the financial benefit to the licensor is also limited (Perlitz & Seger, 2000, p. 100 et seq.). However, limited financial benefit also applies to contractual market entry strategies in general.

### *International franchising*

Another contractual market entry strategy option is international franchising. International franchising has grown rapidly in importance in recent years and has become a central market entry strategy (Dehnen, 2012, p. 100). The franchising model implies that independent firms enter into a vertical cooperation for the distribution of products or services. The franchisee, which is a local partner in the target market, pays a fee to the domestic franchisor. By paying

this fee, the franchisee gains the right to make use of the franchisor's organizational structures and concepts related to procurement, marketing, and distribution. Thus, it has access to an entire established and tested business package. In exchange, the franchisee, as a local operator in the target market, brings market expertise (Perlitz & Seger, 2000, p. 106 et seq.). The combination of the franchisee's market expertise and the franchisor's well-established and proven business concept enable international market entry within a short period of time with a minimum input of resources (Sternad et al., 2013, p. 75). An important difference to the licensing model previously discussed is that while the companies are legally independent firms, the franchisor is entitled to issue instructions to the franchisee with the aim of conveying a consistent image of its company in diverse international markets. This market entry strategy is attractive to companies that are unwilling to enter new markets by investing due to perceived high risk. The strategy is also appealing to firms that struggle to capture new markets via an export strategy (Perlitz & Seger, 2000, p. 106 et seq.). It should be noted that this strategy cannot be applied to all sectors and industries in a similar manner. For products with a complex technical construction process, such as those found in the automotive or mechanical engineering industries, the franchising strategy is less applicable.

Nonetheless, this market entry strategy offers the following advantages (see table 3). The franchising strategy enables domestic companies to capture new markets even if financial resources are limited and no major investments can be made, which applies to contractual market entry strategies in general. This likewise entails that economic as well as political risks remain low. By following this model, the franchisor can, even without strong financial assets, access new markets. As the franchisor's scope of influence with respect to the franchisee is high, it can enforce its marketing policy abroad. Moreover, the franchisor profits from the fee paid by the franchisee as well as from the local market expertise the local partner brings to the cooperation, which also applies to contractual market entry strategies in general. Conversely, the franchisee benefits from the cooperation as it can make use of its partner's organizational structures and well-proven business concepts. In addition, it profits from the franchisor's expertise and support. A further advantage is that the franchisee is highly interested in performing well as it directly benefits from the profits made abroad, so the incentive system is well-structured.

The general disadvantages listed for contractual market entry strategies also apply to the franchising model and are similar to those of the licensing model (see table 1 and 3). These approaches pose the risk of knowledge drain, which may have the consequence that franchisees could become future competitors (Perlitz & Seger, 2000, p. 106 et seq.). It is thus

essential to choose an adequate partner to reduce the risk of entering into a binding contractual relationship with a partner that may behave opportunistically. Further, a low-performing partner abroad, who does not adhere to instructions, could jeopardize the entire brand image. An additional disadvantage of this model is that the franchisor's scope of influence brings high levels of monitoring and coordination effort. Finally, as in all contractual market entry strategies, the franchisor's potential for profit is moderate, as profits are shared between franchisee and franchisor (Sternad et al., 2013, p. 75).

### *Contract manufacturing*

Another option within the contractual market entry strategy is contract manufacturing. In contract manufacturing, a foreign company entrusts a local manufacturer in the target market with part of the production process based on a manufacturing contract. Production processes carried out by the local contract manufacturer can range from the manufacturing of components to the final assembly of products and inward-processing procedures. This differs from a licensing agreement in that the distribution of the end product remains with the foreign company. The contract manufacturer offers the foreign company its know-how and production facilities to carry out a part of the production process in the target market. The contract manufacturer profits from the technological know-how and support of the foreign company, which, in most cases, is the owner of the technological know-how (Perlitz & Seger, 2000, p. 102 et seq.).

A contract manufacturing strategy is often applied when a company wants to enter a market within a short period of time with a limited amount of financial and personnel resources and a low level of risk, which applies to contractual market entry strategies in general. Accordingly, the initial engagement of the foreign firm is limited and can be described as observant. This strategy enables a company to penetrate the market in successive steps and can serve as a preliminary step before undertaking a full extension of business operations abroad (Sternad et al., 2013, p. 75 et seq.). Like all contractual market entry strategies, this strategy offers the advantage that the foreign company can exploit the market expertise of its local partner and profit from its established local networks and competences. Like contractual market entry strategies in general, the contract manufacturing strategy is frequently applied when a foreign company cannot capture the target market via an export strategy because of high trade barriers. Furthermore, as part of the production process is carried out locally, this strategy often entails incentives granted to the foreign company such as tariff or tax exemptions that may result in cost advantages. Moreover, some companies consider a contract manufacturing

strategy when existing domestic production capacities are exhausted and additional units must be produced externally (Perlitz & Seger, 2000, p. 102 et seq.). Other companies follow this strategy to achieve cost savings as labor or material costs may be lower abroad (Sternad et al., 2013, p. 75 et seq.). However, these strategic approaches cannot be seen as market entry strategies aimed at capturing new markets. Since this is the main issue of the overall analysis, market entry strategies motivated by drivers such as expansion of production capacities or cost savings are not further analyzed in this context.

A negative aspect of contract manufacturing strategies is the potential inability of contract manufacturers to produce products with the indicated quality. Although a contract manufacturing strategy offers excellent possibilities for controlling quality as products are ‘bought back’ by the foreign company to distribute, contrary to the licensing strategy, measures such as quality audits must be undertaken to control the contract manufacturer (Buckley & Casson, 1998, p. 544). It must also be ensured that the local manufacturer is respecting international standards concerning working conditions as a violation of these could seriously harm the image of the domestic company. Again, the choice of the right contract manufacturer as well as a well-functioning control mechanism is essential. Further negative aspects related to the licensing and franchising model are limited financial benefits and danger of knowledge drain as the contract manufacturer could become a future competitor (Perlitz & Seger, 2000, p. 102 et seq.).

Table 3 presents advantages and disadvantages of the various types of contractual market entry strategies. Table 1 presents the general advantages and disadvantages of contractual market entry strategies, which apply to all three forms.

*Table 3: Advantages and Disadvantages of Contractual Market Entry Strategies*

Contractual Market Entry Strategies	Advantages	Disadvantages
Licensing Agreement	<ul style="list-style-type: none"> <li>• No major investment required</li> <li>• Gradual accumulation of market knowledge</li> <li>• Applicability for governmental incentives</li> </ul>	<ul style="list-style-type: none"> <li>• High dependency on licensee’s performance</li> </ul>
International Franchising	<ul style="list-style-type: none"> <li>• Franchisor’s scope of influence high</li> <li>• Exploitation of franchisor’s organizational structures</li> <li>• Adequate incentive scheme</li> </ul>	<ul style="list-style-type: none"> <li>• High dependency on franchisee’s performance</li> <li>• High coordination complexity</li> </ul>
Contract Manufacturing	<ul style="list-style-type: none"> <li>• Gradual accumulation of market knowledge</li> <li>• Eligible for governmental incentives</li> </ul>	<ul style="list-style-type: none"> <li>• Dependency on contract manufacturer’s performance</li> </ul>

Source: Own table.



#### 2.2.4. Subsumptions and implications for development and analysis of the model

Three market entry strategies allow companies to capture and exploit the potential of international markets: the export strategy, the FDI strategy, and the contractual market entry strategy.

As this discourse is targeted at developing a model to support corporations during the process of internationalization in identifying markets that require local production activities for effective capture, using the automotive industry as an example, the export strategy plays only a minor role. This can be justified by the fact that OEMs already supply virtually all countries via an export strategy. The important questions explored in this research is whether an export strategy is sufficient to capture international markets efficiently and whether OEMs need to set up local production facilities in key markets or regions to fully exploit the potential of foreign markets. Accordingly, the key research question is how to detect markets that require a local production strategy to fully exploit their potential so as to empower corporations to follow a sustainable growth path. The research question demonstrates that for the first-level analysis, which explores whether local production activities that can be implemented equally well via an FDI or contractual market entry strategy are required to fully exploit the potential offered by international markets, it is unimportant whether corporations implement an FDI or contractual market entry strategy. A second-level analysis would consider whether it is advisable for corporations to follow an FDI strategy or a contractual market entry strategy. As previously discussed, both approaches have pros and cons. Market-specific, case-by-case analyses need to be carried out for each market entry strategy.

However, it is not the intention of the following assessment to evaluate whether to apply an FDI or a contractual market entry strategy, as both market entry strategies promote the penetration of international markets via the implementation of local production activities and are thus relevant to firms that want to internationalize due to market-seeking FDI motives (Alcantara & Mitsunashi, 2012, p. 340). Within the literature, the choice of appropriate market entry strategy is seen as one of the most important decisions involved in the process of internationalization. Therefore, extensive empirical studies have been conducted on the topic. It is not the aim of the present research to contribute to the literature with another empirical study on the choice of market entry strategy between export strategy, FDI strategy, or contractual market entry strategy. Instead, this research is focused on the internationalization process of corporations, more specifically on the decision-making processes corporations wishing to internationalize use to identify markets with potential for more adequate

exploitation by establishing local production facilities. The present study takes up the extensive work that has been done in this field by considering the many variables and influencing factors that have been shown to determine corporations' internationalization strategies (see comprehensive meta-analysis of Morschett, Schramm-Klein & Swoboda, 2010). It aims to respond to the lines of critique expressed in regard to empirical studies previously conducted in this field. A major point of critique is that the conducted studies are one-dimensional in terms of the application of theory and influencing factors. The second major point of critique is that only rarely previous findings have been considered (Morschett et al., 2008, p. 510 et seq.).

The aim of this research is to develop a decision-making process that can support corporations in identifying international markets that demonstrate potential for more adequate and effective exploitation with the establishment of local production activities. A structured decision-making process with relevant influencing factors is developed. Attained knowledge compiled in previous research is considered, which explicitly responds to the second line of critique that previous findings have rarely been taken into account. This research also responds to the first line of critique in regard to one-dimensionality since it follows a multi-dimensional approach in terms of theory and influencing factors.

The next chapter is dedicated to the theoretical foundations of internationalization and market entry strategies and provides an extensive overview of related diverse theoretical strands. The subsequent chapters develop a decision-making process model that integrates various influencing factors from these theoretical strands. Responding to the second line of critique, findings from previous research are considered. This was already accomplished by integrating findings of a meta-analysis that found market-seeking motives as the most important driver for firms to invest abroad (see meta-analysis of Morschett et al., 2010).

### **3. Theoretical foundations**

There is a long tradition of the process of internationalization in business administration and economic science, and a significant amount of research on the topic has been conducted. It has been approached and analyzed from many different perspectives. This chapter provides an overview and critical discussion of the related core theoretical concepts.

Chapter 3.1 presents classical theories such as theories of international trade and location theory, which highlight country- and location-specific aspects within corporations' internationalization and market exploitation strategies. Chapter 3.2 introduces theories of industrial economics such as the monopolistic rent and oligopolistic reaction theories, which focus on competition-specific aspects as well as the product life cycle theory, which emphasizes product-specific aspects. Chapter 3.3 discusses the internationalization process model, which underlines behavior-oriented aspects, and Chapter 3.4 deliberates theories of the firm such as the transaction cost and internalization theories, which concentrate on firm-specific aspects of corporations' internationalization and market exploitation strategies. Chapter 3.5 links ideas from the strategic management literature to concepts of industrial organization. Chapter 3.6 analyzes Dunning's eclectic paradigm. Chapter 3.7 critically discusses the theoretical concepts elaborated in other sections. Chapter 3.8 presents timing strategies corporations can follow during the process of internationalization from corporation-centric and competitive environment perspectives. Chapter 3.9 briefly elaborates on success factor research and how it can be applied within the context of corporations' internationalization and market exploitation strategies. Chapter 3.10, the final sub-chapter of the theoretical overview, presents phase models developed to structure the decision-making process of corporations' internationalization and market exploitation strategies.

### **3.1. Classical theories**

#### **3.1.1. Theories of international trade**

Smith (1776) and Ricardo (1817) laid the foundation for foreign trade theory with their theoretical concepts of absolute and comparative cost advantages, respectively. In these theoretical concepts, macroeconomic factors determine patterns of international trade. Based on these concepts, Heckscher and Ohlin (1952) developed the eponymous theory that explains the international division of labor, the specialization of countries, and, consequently, international trade patterns by countries' factor endowments. According to this theory, countries specialize in goods for which the most input factors are available. The geographic distance between countries as well as trade barriers, which result in additional costs, are seen as disrupting international trade patterns (Schonert, 2008, p. 239 et seq.).

Foreign trade theory introduces valuable insights about international trade patterns by elaborating on the division of labor, the specialization of countries, and comparative cost

advantages in regard to international production activities. At the same time, however, it assumes the immobility of production factors. The theoretical concept is thus inappropriate to support corporations' decision-making processes in today's business realities in regard to which markets to exploit by establishing local production activities.

### 3.1.2. Location theory

#### *The theoretical concept*

With his work *The Isolated State*, von Thünen (1826) made an early contribution to spatial economics and economic geography. Under the assumption of a single dominant market, which is located in the center, von Thünen argued that production locations should be determined by considering land and transportation costs. By analyzing agricultural activities, he modeled four concentric rings within which he suggested production of specific products. He derived the allocation of product-specific production locations to particular concentric rings from the land rent a farmer can afford to pay and the cost of transportation, which varies according to distance from the market and product properties. Thereby, von Thünen showed that for each product, production is worthwhile at a certain distance to the market (Thünen, 1826; Venables & Limao, 2002).

Weber (1909) introduced location theory, which has become an integral part of economic geography and spatial economics. Location theory aims to determine corporations' cost-minimum production locations. This theoretical approach introduced location factors, which are at the core of this theoretical concept. Along with von Thünen, Weber considered cost-effective location factors such as material, labor, and transport costs to determine corporations' cost-minimum production locations. However, he neglected country-specific influencing factors such as the sales potential of international markets or external economic indicators.

Lösch (1940) further developed Weber's approach by integrating sales-relevant location factors. Location theory thus developed from finding a cost-minimum production location towards finding a production location to maximize profits and benefits. Based on Weber and Lösch, Meyer (1960) further emphasized that a cost-minimum production location is not necessarily the optimal production location. A much stronger focus is placed on sales aspects, which have been shown as determining factors. Meyer and Linnemann (1966) further expanded on the concept by highlighting that a comprehensive location theory should consider all relevant location factors.

Tesch (1980) combined aspects of international trade and FDI theories with features of location theory. With this theoretical approach, local framework conditions are shown as creating location-specific competitive advantages. Those location-specific advantages have been found to directly influence a company's competitiveness in international markets and can thus strongly influence a company's market exploitation strategy. Within his concept, Tesch also accentuated that location decisions cannot be generalized since firm-specific influencing factors should be considered. He further referred to the fact that motives for corporations to promote internationalization strategies can be divergent, ranging from exploiting the sales potential of international markets to reducing production costs. Of course, this impacts the choice of location in a different way (Schonert, 2008, p. 245 et seq.). Jahrreiß (1984) complemented Tesch's concept by further integrating determinants as to why corporations invest abroad, such as governmental incentive schemes, political risk, and market-specific variables such as tax systems. He extracted these determinants from partial analytic theoretical approaches and constructed an eclectic foreign investment theory (Meyer, 2000, p. 58).

### *Critique*

These theoretical concepts have often been criticized as being difficult to operationalize due to the high level of aggregation. Empirical verifications have thus been conducted considering only some aspects. A comprehensive empirical confirmation of the international location theory has so far not been accomplished.

Location theory has generated valuable insights to spot optimal production locations within specific countries. Modern theoretical approaches such as those of Tesch and Jahrreiß have made further contributions to explain corporations' international market exploitation strategies. Country-specific factors, which have a significant influence on corporations' internationalization and market exploitation strategies, have been asserted (Meyer, 2000, p. 58 et seq.).

Location theory has thus generated valuable insights to explain corporations' internationalization and market exploitation strategies. Since it is the aim of the present research to develop an all-encompassing approach to corporations' internationalization and market exploitation strategies, it nevertheless seems inappropriate to focus exclusively on location-specific aspects within a corporation's internationalization process. Hence, additional theoretical strands are analyzed.

### **3.2. Theories of industrial economics**

A theoretical strand that has applied analytical methods of industrial economics to explain corporations' international business activities has fundamentally influenced the research field of international business and economics.

#### **3.2.1. Monopolistic rent theory**

##### *The theoretical concept*

Hymer (1976) was one of the first scholars to argue that firms are motivated to engage in FDI because they want complete control of their business activities abroad. Accordingly, he suggested that FDI strategies can be explained by addressing the question of why firms want complete control of their international business activities. He argued that FDI enables firms to fully exploit company-specific competitive advantages. This assumption is based on the fact that companies with total control over their business activities abroad can fully claim their international revenues for themselves as a result out of their firm-specific advantages. In addition, the imperfection of markets is a considerable premise on which the concept is based. In this context, market imperfections should be understood as structural imperfections in a monopolistic form. These imperfections emerge because actual conditions deviate from those of perfect markets. An example of such a deviation is the implementation of policy interventions such as the application of market entry barriers or restrictions on profit repatriation (Kindleberger, 1969). These imperfections enable firms to realize competitive advantages by carrying out international business activities via the implementation of FDI. Correspondingly, it is FDI that empowers corporations to control their international business activities so as to fully claim possible revenues for themselves by exploiting competitive advantages (Weiss, 1996, p. 21 et seq.).

Hymer and other industrial economists such as Kindleberger (1969), Johnson (1967), and Caves (1971) who further developed Hymer's theoretical approach, disseminating it as the monopolistic rent theory, also recognized that foreign firms making an investment abroad are disadvantaged vis-à-vis local firms. They argued that local companies have an advantage since they can rely on comprehensive market expertise regarding economic, political, and legal framework conditions as well as an existing network of business relationships. Furthermore, it has been emphasized that foreign companies are often at a disadvantage as they suffer from discrimination due to governmental regulations (Hymer, 1976, p. 34 et seq.).

Accordingly, it has been argued that a foreign firm can only successfully capture new markets through foreign investment if the firm's specific competitive advantages compensate for its disadvantages. Such monopolistic competitive advantages can be traced back to technological or managerial advantages, economies of scale, or well-engineered, sound products (Weiss, 1996, p. 21 et seq.).

### *Critique*

A central point of critique is the argument that company-specific competitive advantages must be in place to successfully internationalize via an FDI strategy. What this theoretical strand neglects to consider is the fact that companies could realize cost advantages, for example, when following an FDI strategy, which may, in a second step, enable them to achieve competitive advantages in the target market. Consequently, existing competitive advantages should not be considered a necessary precondition to establish international production activities (Casson, 1987, p. 43; Weiss, 1996, p. 21 et seq.).

Another point of critique is that the concept explains why companies can and want to internationalize but does not specify why a specific market entry strategy, namely an FDI strategy, must be applied. Industrial economists do not further specify why competitive advantages must be exploited by FDI and why these cannot be realized by the application of other market entry strategies such as a contractual market entry strategy. This can be explained by the assumption that FDI is seen as maximizing monopolistic rents when structural market imperfections prevail. Industrial economic scholars thus assume that monopolistic rents can only be fully exploited when FDI is made, which is seen as a necessary precondition to fully control international business activities. This explains why industrial economists assume the advantageousness of a foreign investment strategy. This results in the assumption that other market entry strategies are inefficient to fully control the exploitation of competitive advantages (Weiss, 1996, p. 23). The question as to why firm-specific competitive advantages cannot be exploited via the implementation of export or contractual market entry strategies remains unanswered (Meyer, 2000, p. 68).

Although the monopolistic rent theory has some shortcomings, it introduces decisive criteria to explain corporations' internationalization and market exploitation behavior: control, as an essential criterion for corporations to make FDI, and firm-specific competitive advantages, as a necessary condition to successfully capture new markets. However, this theoretical concept has fallen short in demonstrating that the exploitation of competitive advantages necessarily requires an FDI strategy. Therefore, it is necessary to explore competitive advantages and

their strategic implications further and to examine additional factors to determine relevant factors in regard to why corporations promote internationalization and market exploitation strategies (Meyer, 2000, p. 68 et seq.).

### 3.2.2. Product life cycle theory

#### *The theoretical concept*

Vernon (1966, 1974) developed a theoretical concept that argues that trade and investment activities of companies are related to the maturity level of their products. According to Vernon, a product has three phases: the new product stage, the maturing product stage, and the standardized product stage. In his concept, alternative market entry strategies correspond to the phases of the product life cycle. In the new product stage a company needs to be very close to the product and its suppliers, customers, and competitors, and production of the new product is preferably carried out in the innovative environment of the company's domestic market. If international markets are supplied, it is via an export strategy. In the second phase, the maturing product stage, international demand is rising so the flow of exports increases. The more standardized the product becomes, the less important the innovative environment and the more important production cost advantages, which could be realized by producing abroad. Accordingly, local production sites in target markets become more attractive. The upsurge of competition and the expansion of import restrictions imposed in foreign markets further support the adaptation of market entry strategy from an export to an investment strategy. Standardized products and a pronounced competitive environment characterize the standardized product stage. In this phase, firms attempt to reduce costs by exploiting production cost advantages via production activities abroad and to capture new markets (Meyer, 2000, p. 69 et seq.; Vernon, 1966, p. 196 et seq.; Weiss, 1996, p. 23).

#### *Critique*

Vernon (1974) himself further developed his theoretical concept, admitting that his initial approach oversimplified a corporation's decision-making process in the context of market entry strategies since it did not consider several relevant influencing factors such as political and economic framework conditions of target markets. Additionally, he responded to a major point of critique, namely that the first version of his theoretical model assumed that only the US could function as the innovative domestic market of firms. Later, he granted the European Union (EU) and Japan the same status (Vernon, 1974). However, it is questionable whether



this is sufficient for current business realities. Another point of critique is that the theory is applicable only to very specific sectors that contain innovative industries. A further shortcoming is that this theoretical concept is inappropriate for practical implications since it explains different phases of the product life cycle in specific countries ex post but cannot forecast them ex ante. Forecasting is necessary to support firms effectively within the process of internationalization. A further critique by practitioners is the theory's negligence of contractual market entry strategies (Meyer, 2000, p. 72).

Although points of critique have been raised, Vernon's product life cycle theory provides valuable insights into why corporations adapt their internationalization and market exploitation strategies. It has been highlighted that firm-specific competitive advantages change during the product life cycle and that strategies to optimally exploit these have to be modified accordingly. Empirical studies have confirmed that corporations often adapt their market entry strategies from export to investment strategies. However, whether these studies affirm the product life cycle theory is questionable, since distorting factors such as trade barriers and exchange rate risk, which are also essential factors that cause adaptations of market entry strategies, are neglected. An explicit empirical connection between Vernon's product life cycle and the adaptation of market entry strategies has not been found so far.

Vernon's product life cycle theory nonetheless offers valuable insights and introduces relevant factors for corporations' internationalization and market exploitation strategies. The theory prominently introduces firm-specific influencing factors such as the innovative content and maturity level of products. Likewise, it indicates the importance of location-specific factors such as the target market's technological and wage levels (Meyer, 2000, p. 72).

### 3.2.3. Oligopolistic reaction theory

#### *The theoretical concept*

Scholars such as Cournot (1838), Bertrand, Stackelberg (1934), and Sweezy (1938) developed noteworthy models to explain corporations' behavior in oligopolistic markets.

Cournot's model was the first and is thus explained in more detail. The model aims to explain the behavior of market participants in duopolistic and oligopolistic markets. Several assumptions are made: the supplied products are homogenous, and perfect information exists so consumers are always fully informed about the prices of all suppliers. Consumers buy the product at the best available price, and suppliers are fully informed about other suppliers' pricing structures and can rapidly adjust their prices. All market participants aim to maximize

their profits and are aware of the fact that other participants aim to do the same. Market participants decide simultaneously about the quantity they are willing to supply, without knowing the quantity that other market participants will offer. Demand follows a linear price-sales function, and marginal costs are equal for all market participants (Cournot, 1838; Pfähler & Wiese, 1998). Cournot suggested that market participants anticipate the quantity that other suppliers will offer and decide the quantity they are willing to supply to the market. The supplied quantity and the associated price are thus understood as the strategic variable. The best combination of the supplied quantities, the Cournot quantity, is attained when market participants adjust their supplied quantity in anticipation of other market participants' supplied quantity. If one supplier chooses the Cournot quantity, it is best for the other supplier to also choose the Cournot quantity. If the other supplier instead chooses to offer a higher quantity, it is assumed that the supplier would lose more than he would gain due to the decreasing market price as a result of increased sales volume. On the other hand, if the supplier chooses to offer a smaller quantity, it is expected that he would lose more than he would gain from decreasing sales volume as a result of higher market prices. Thus, the realization of the Cournot quantity results in a stable equilibrium, which leads to a Nash equilibrium (Cournot, 1838; Pfähler & Wiese, 1998).

Bertrand further developed Cournot's model. He emphasized, however, that it is primarily the price that is the strategic variable simultaneously set by market participants. Bertrand argued that under the same assumptions underlying the Cournot model, market participants will offer their products at the rate of marginal costs, resulting in a Nash equilibrium. This is explained by the fact that the pricing structure of one market participant always evokes a reaction of other market participants. If other market participants offer their products at lower prices, overall demand will shift towards these suppliers. However, if the price is equal to the marginal costs, which are equal for all market participants, no other market participant will be able to offer the product at a lower price level (Pfähler & Wiese, 1998; Tieman, Laan & Houba, 2001).

Stackelberg (1934) also built on Cournot's model, partially adapting it and arguing that a market-leading company dominates the market. Stackelberg suggested that it is this market leader that first decides on the quantity and price it wants to offer to the market. Thus, the leader determines the quantity it is willing to offer to maximize his payout, anticipating its followers' reactions. In a second step, the other market participants, the followers, take into account the leader's quantity and determine their quantity (Stackelberg, 1934; Steckelbach, 2002).

Sweezy (1938) provided interesting insights about the behavior of participants in oligopolistic markets. He argued that the behavior of oligopolistic firms remains relatively stable when price levels and output are determined. He explained that if one oligopolist reduces its prices, the other oligopolists will also adjust their price levels, neutralizing the expected gain. On the other hand, if one oligopolist increases its prices, the other oligopolists will not increase their prices at the same time. Thus, the oligopolist raising the price level would lose market share. He explained this with a kinked demand curve, which consists of an upper segment that is relatively elastic and a lower segment that is relatively inelastic. Sweezy thus demonstrated that within oligopolistic markets, oligopolistic firms follow price cuts but not price hikes. Oligopolists are reluctant to change prevailing prices, which is the reason why prices in oligopolistic markets appear to be rigid. Sweezy elaborated on one deviation, namely a scenario where consumers show strong preferences for a product. He claimed that if product differentiation is high, consumers may continue to demand products with prices that are slightly higher (Sweezy, 1938).

A brief mention should be made of the location theoretical approach of Hotelling, who in 1929 indicated that firms respond not only to changes in demand but also to their economic environment and their competitors' actions and market strategies. Hotelling disclosed that when one competitor positions itself advantageously within a market, other competitors try to adapt their strategies to position themselves at least as advantageously as their competitors (Hotelling, 1929).

The oligopolistic reaction theory in the context of internationalization strategies of corporations can be traced back to Knickerbocker (1973). This theoretical strand as well as the product life cycle theory can be classified as theoretical concepts that analyze the internationalization process of firms from a dynamic perspective. The oligopolistic reaction theory states that FDI can be seen as a competitive instrument to distort the oligopolistic equilibrium of international markets. The underlying assumption is that if one competitor decides to implement an FDI strategy by, for instance, setting up local production activities in a specific foreign market, this offers the investing competitor advantages over competitors that continue to supply the market via an export strategy. For example, these advantages may occur when the investing firm is confronted with a reduced level of market entry barriers. The advantages gained by the locally producing competitor negatively impact exporting competitors since they comparatively reduce export revenues. Accordingly, the

internationalization of the production activities of one oligopolist incentivizes its competitors to make ‘follow-the-leader investments’. Thus, out of necessity, other competitors may adapt their strategy from an export to an FDI strategy to restore oligopolistic equilibrium and accomplish their respective market shares (Weiss, 1996, p. 23). Hence, strategic interaction among competitors takes place as competing firms enter the same markets to soften competition. It has been empirically proven that firms competing with each other in a domestic market often enter the same international markets (Alcácer et al., 2015, p. 208; Gimeno, Hoskisson, Beal & Wan, 2005). This bandwagon effect is thus the result of a competitive investment strategy (Rose & Ito, 2008, p. 866).

The oligopolistic reaction theory further explains why competing firms follow each other to the same markets. It suggests that imitating competitors’ internationalization behavior reduces the risk associated with a corporation’s own internationalization activities. Two types of risk require special consideration within the internationalization process: market opportunity risk and economic and political risk. Market opportunity risk arises when only vague estimations about future business opportunities in growing international markets can be made since the information available is limited. This type of risk decreases when competitors have invested in a target market and successfully carried out their business activities abroad since this demonstrates the feasibility of similar business activities (Alcantara & Mitsuhashi, 2012, p. 337; Knickerbocker, 1973). The second type of risk, political risk, occurs when there is a high level of uncertainty regarding the political, legal, and regulatory framework of a market. This type of risk also decreases when competitors successfully penetrate a market via an FDI strategy since this demonstrates that the regulatory framework does not negatively impact local business activities (Gelbuda, Meyer & Delios, 2008; Howell, 2001). Finally, imitating a competitor’s investment behavior grants legitimacy to the decision to make an investment abroad.

Accordingly, the oligopolistic reaction theory clearly demonstrates that corporations’ internationalization strategies are related to external stimuli (Meyer, 2000, p. 72 et seq.).

### *Critique*

The oligopolistic reaction theory introduces an important aspect that should be considered within the process of internationalization; strategic interaction among competitors. However, it falls short when explaining why the first oligopolist, the leader, is making an investment abroad. This limits the concept’s explanatory value in regard to corporations’ internationalization and market exploitation strategies. While the oligopolistic theory

introduces an additional factor that promotes corporations' international investment activities, it cannot be categorized as a self-contained explanatory approach to corporations' internationalization and market exploitation strategies. Furthermore, the model's scope of application is limited since only oligopolistic markets are considered. (Meyer, 2000, p. 73 et seq.; Weiss, 1996, p. 23 et seq.).

However, the theory does provide valuable insights to explain corporations' internationalization and market exploitation strategies. Nonetheless, further dimensions need to be assessed so as to comprehensively analyze corporations' internationalization and market exploitation strategies.

### **3.3. The internationalization process model**

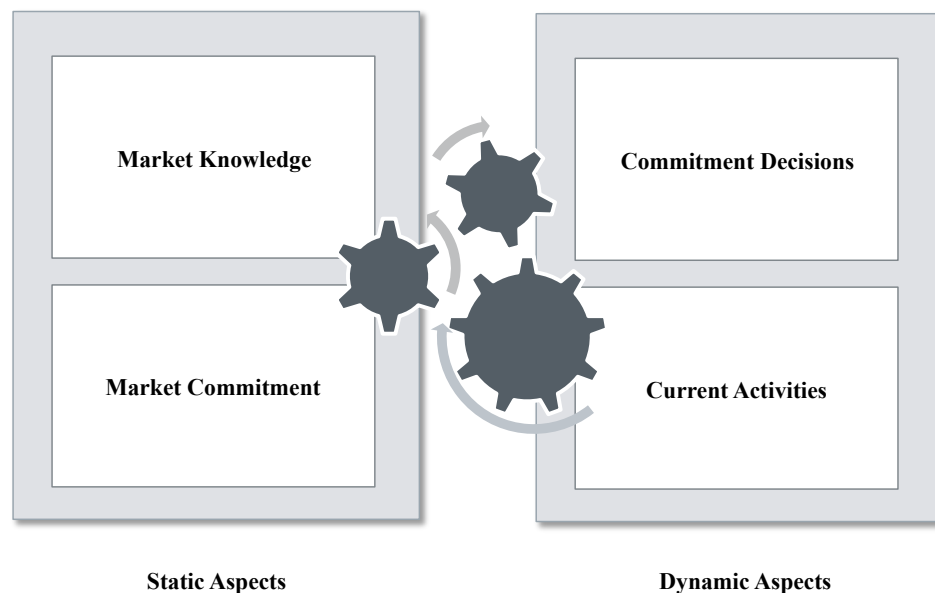
The internationalization process model is an additional theoretical concept that can be classified as a behavior-oriented approach explaining the internationalization of corporations. It explains a firm's process of internationalization primarily through its internal incremental learning process. It relates a firm's internal level of knowledge to its pace of internationalization and resource commitment to international markets. The theoretical concept suggests that firms with little international experience prefer to enter international markets with low commitment. The concept accordingly claims that especially at an early stage of internationalization, firms tend to follow market entry strategies that require a limited level of resources and pose a limited level of risk. The concept thus suggests that firms at an early stage of internationalization tend to enter new markets via either export or contractual market entry strategies. It is further assumed that firms continuously learn during the process of internationalization. Since more knowledge about international markets reduces the level of uncertainty, firms correspondingly intensify their commitment, which may cause adaptation of the market exploitation strategy towards an FDI strategy (Morschett et al., 2008, p. 512).

#### *The Uppsala internationalization process model*

The most prominent model within the internationalization process field is the Uppsala internationalization process model developed by Johansson and Vahlne (1977, 1990) (Andersson, 2004, p. 854 et seq.). The model differentiates between static and dynamic aspects that influence a corporation's internationalization process. Static aspects are market knowledge and market commitment. Dynamic aspects are current activities and commitment

decisions. Market commitment is dependent on the level of risk firms sense in international markets, with resources implemented accordingly. In regard to market knowledge, Johansson and Vahlne expanded on the classification of Penrose (1959), who differentiated between objective knowledge and knowledge based on experience, which is significantly more difficult to obtain since it is generated only by personal experience. Current activities, a dynamic aspect, are considered decisive to incrementally enrich the experiential knowledge of a firm. Commitment decisions, an additional dynamic aspect, is understood as decisions about how a company enters an international market, and are expressed by the level of resources it is willing to invest to operate in the market. The model suggests that static aspects, market knowledge, and market commitment mutually reinforce dynamic aspects, current activities, and commitment decisions (see figure 5). It assumes that current activities result in a constant gathering of experience and information, which evokes proliferation of market knowledge and thus market commitment. Since continually increasing market knowledge reduces the perceived level of risk, a firm is encouraged to further internationalize by intensifying its commitment decisions (Dehnen, 2012, p. 60 et seq.).

*Figure 5: The Internationalization Process Model*



Source: Own figure based on Dehnen, 2012, p.65.

The model hence suggests that companies should internationalize in small, incremental steps as risk-averse managers identify expansion opportunities in international markets (Barkema & Drogendijk, 2007, p. 1). It accentuates that a firm's level of knowledge determines its

internationalization path. Learning how to act within an international business environment and how to deal with foreign cultures is seen as a decisive criterion to successful performance at the international level. Johansson and Vahlne (1977), moreover, argued that managers' experiential knowledge, which is claimed to significantly reduce the level of market uncertainty, determines which business opportunities companies are aware of (Penrose, 1959). They also argued that the more committed companies are towards a specific international market, the more knowledge they gather over time, which correspondingly expands their opportunity horizon. A high level of knowledge further reduces the level of uncertainty and thus makes expansion in international markets more likely (Andersson, 2004, p. 854 et seq.). This incremental expansion pattern has been substantiated by many empirical studies that have shown that incremental expansion in international markets increases local learning and success (see for example Buckley, Newbould & Thurwell, 1978; Engwall & Wallenstal, 1988).

Empirical studies based on this theoretical strand have also revealed that companies tend to exploit business opportunities that are close to them culturally and geographically first (Baum, Li & Usher, 2000). Expanding into neighboring countries enables companies to apply existing strategies based on already accumulated knowledge and experiences from their home markets. Only slight improvements and minor adaptations or combinations of applied concepts need to be undertaken. Barkema and Drogendijk (2007), who argued that companies can learn through exploitation or exploration, would classify this approach as a strategy of exploitation. Studies have demonstrated that companies make use of this strategic approach when they enter, for example, a new market within a cultural bloc where they are already present, as this allows them to make use of previously gathered cultural knowledge (Ronen & Shenkar, 1985). The strategy of exploitation is also used when companies incrementally enter new markets. In this scenario, since market commitment is low in the early stages, companies enter markets through export or contractual means such as a licensing agreement. Empirical studies have confirmed this approach, showing that an incremental approach improves performance of subsequent FDI (Barkema & Drogendijk, 2007).

However, companies can also capture new markets by following an exploration strategy. In this case, culture- or region-specific knowledge has not yet been accumulated and thus companies must gather market-specific expertise to reduce the liability of foreignness, a concept that is explained later. Exploration can hence be understood as learning through experimentation, which companies engage in when entering new cultural or regional blocs. Empirical studies have underlined that companies engaging in FDI sacrifice in regard to the

performance of their first investment but experience pronounced learning (Barkema & Droogdijk, 2007).

### *Liability of foreignness*

In 1975, Hymer introduced the concept 'liability of foreignness'. He emphasized that entering new markets comes with a high level of risk, which can be traced to the liability of foreignness. The liability of foreignness can be understood as the costs and risks firms deal with when carrying out business activities abroad (Nachum, 2003). These risks are manifold and may arise because of the geographical distance between the home and host countries. Risks may also occur due to limited availability of information about the local business environment. Since the level of unpredictability in regard to the local political, economic, and regulatory framework is high, risk is also high. Finally, risks can be traced to discrimination that foreign firms face from local governments, business partners, customers, or employees (Alcantara & Mitsunashi, 2012; Johansson & Vahlne, 1977; Mauri & Neiva de Figueiredo, 2012). Empirical studies have demonstrated that because of the liability of foreignness, foreign firms are at a disadvantage in international markets and consequently perform worse than their local competitors (Miller & Parkhe, 2002). Researchers such as Li and Shaver et al. have emphasized that the cultural differences between home and host countries impede foreign investment. This is related to the liability of foreignness, specifically to the concept of psychic distance, which is said to be pronounced when cultural differences exist (Li, 1995; Shaver, Mitchell & Yeung, 1997).

### *The model's operationalization*

The internationalization process model can be operationalized in two ways. First, operationalization is concentrated on the sequence of market entry and thus analyzes why companies choose to internationalize in some countries first. The theoretical concept was inspired by the internationalization process in the 1970s, when many companies were initiating the internationalization process by first entering neighboring countries to minimize the psychic distance and liability of foreignness. Second, empirical studies informed by this theoretical strand have investigated a firm's increasing commitment towards certain international markets over time (see Andersson, 2004, p. 854 et seq.; Buckley et al., 1978; Engwall & Wallenstal, 1988). Again, the inspiration for these studies came from the internationalization process in the 1970s, when many firms began to enter new markets by



applying export strategies. The firms incrementally increased their commitment by successively implementing contractual market entry and FDI strategies.

This theoretical concept is of great interest in regard to market entry strategies in emerging economies, since the level of uncertainty is high and the political and economic regulatory framework can be volatile in these markets. The internationalization process model, with its incremental market exploitation, thus suggests that foreign companies, particularly those in emerging economies, should incrementally gain more market experience while simultaneously reducing the level of uncertainty. Firms thereby maintain strategic flexibility, which permits them to adapt to volatile local framework conditions since it enables decision-makers to process new information and adapt their local strategies accordingly. The theoretical approach also suggests that having strategic flexibility results in competitive advantage over firms that do not develop a market incrementally (Buckley & Casson, 2009, p. 1578; Meyer & Jensen, 2005, p. 122; Teplensky, Kimberly, Hillman & Schwartz, 1993, p. 511).

### *Critique*

A major point of critique faced by the Uppsala School is that the theoretical approach explains the increasing internationalization of a firm exclusively by its increasing level of knowledge. Other influencing factors, especially external ones such as the market potential or competitive situation of international markets, are neglected by the internationalization process model (Dehnen, 2012, p. 67). Critics also emphasize that especially at later stages of the internationalization process, it is not the level of a firm's knowledge that primarily determines whether firms can internationalize successfully; rather, the existence of a comprehensive local network determines whether firms can sustainably and successfully carry out business activities abroad (Forsgren, 1989).

The assertion that neighboring countries, where the psychic distance is low, are the markets that firms enter first has also often been criticized. Many empirical studies such as the one by Nordström (1991) have shown that psychic distance does not primarily determine where firms invest first. He demonstrated that the main reason why and where firms further internationalize is the desire to exploit the market potential offered by foreign countries (Andersson, 2004, p. 855).

This inaccuracy can be traced back to another point of criticism, namely that the internationalization process model has been empirically substantiated only by analyzing firms

whose home markets can be characterized as small, such as firms in Scandinavian countries (Dehnen, 2012, p. 66).

The internationalization process model also implies that knowledge, routines, and strategic approaches to internationalize and develop new markets can be applied at various times to enter diverse international markets. However, the fact that knowledge may be time- and location-specific should not be overlooked. It must be acknowledged that when applying prior experiences to new situations, it must be assured that their applicability is reasonable. Local economic regulatory framework conditions differ, which could cause a strategy to be successful in one country but not in another country. This may be the case when, for example, customer requirements vary or when incentive schemes of local governments differ. Nadolska and Barkema found that inappropriate generalizations based on prior experiences within the internationalization process are often the reason for failure of international market entry strategies. Firms thus need to investigate precisely whether previously acquired knowledge and strategic approaches can reasonably be applied to new situations (Nadolska & Barkema, 2007).

Expansion strategies must hence be aligned at all times with the specific context. This may also entail that in some circumstances, rapid FDI expansion strategies, not incremental ones as the internationalization process model suggests, are favorable. Johanson and Vahlne (2003) recognized that internationalization does not always proceed incrementally. Rapid FDI expansion strategies are particularly applicable to firms in highly competitive industries. Thus, both gradual and rapid FDI expansion strategies have strengths and weaknesses. Context-specific evaluations that consider explicit industry characteristics are required to determine the speed of a firm's FDI expansion (Chang & Rhee, 2011).

Although points of critique have been outlined, this theoretical concept introduces a new perspective, a behavior-oriented approach, where internal incremental learning processes characterize corporations' internationalization activities. This is a necessary perspective to consider when aiming to develop a comprehensive internationalization and market exploitation strategy for corporations.

### 3.4. Theories of the firm

The school of thought based on theories of the firm has substantially influenced the field of research with its two most influential theoretical concepts, the transaction cost theory and the internalization theory.

#### 3.4.1. Transaction cost theory

##### *The theoretical concept*

Coase first introduced the transaction cost theory in 1937. This theoretical concept integrated notions of behavioral science into decision theory for the first time. New constructs such as bounded rationality and the perception of subjective judgment were inaugurated since it is the objective of this theoretical approach to model a realistic picture of economically behaving human beings. The transaction cost theory thus replaced the neoclassical concept, which has been criticized intensively for being unrealistic, as it postulates that humans act completely rationally since they are fully informed (Andersson, 2004, p. 855).

The transaction cost theory's main objective is to evaluate the most efficient form of coordination to exchange goods and services among individuals. To determine the most efficient coordination form, transaction costs, and not production costs, is considered the most decisive factors. The focus is thus no longer exclusively on production costs and products themselves but on the entire transaction, more specifically the transaction costs that are related to a transaction (Meyer, 2000, p. 72).

Transaction cost theory suggests two alternative coordination forms in regard to how economic activity can be realized, either within the corporation or in the market. It is assumed that while economic activities in the market are coordinated via the pricing mechanism, corporations organize themselves via hierarchical order (Weiss, 1996, p. 23). Both coordination forms have costs; in the market, economic actors need to gather information about pricing structures, and within corporations, organizational demand results in costs (Weiss, 1996, p. 26 et seq.).

Transaction cost theory moreover proposes that economic actors are willing to minimize transaction costs when exchanging goods or services. By choosing different forms of coordination, the extent of transaction costs can be influenced (Schonert, 2008, p. 168 et seq.). Finally, transaction cost theory assumes that imperfect markets paired with behavioral patterns of economic actors normally result in higher transaction costs when implementing an

economic activity via the market and not internally in a company. Although transaction costs also emerge when executing an economic activity internally, costs are perceived to be typically lower than the costs that arise when negotiating with an external partner in the market (Weiss, 1996, p. 26).

Picot (1982) differentiated and systematized transaction costs, identifying four types of these costs. First, he argued that transaction costs in the form of initiation costs occur when information about potential transaction partners is gathered. Second, he suggested the existence of agreement costs, which are incurred through the negotiation process when a contractual agreement is established. Third, he proposed that adjustment costs occur when framework conditions change over time and modifications to a contractual agreement need to be made accordingly. Finally, there are control costs, which guarantee that agreed-upon processes are implemented correctly (Meyer, 2000, p. 78).

Williamson (1975) placed transaction cost theory in the context of corporations' internationalization strategies. He thereby focused on undertaking a comparative analysis of diverging coordination forms to explain the choice of market entry strategy (Schonert, 2008, p. 168 et seq.). Teece (1981, 1986) and Hennart (1982) further discussed the application in an international context. These scholars first introduced location factors such as trade barriers and production and transport costs as an explanation for why corporations decide to establish international production sites and cannot rely solely on export strategies. On this basis, explanation patterns of the transaction cost theory have been adjusted to the international context. In this context, the realization of economic activity via the market can thus be equated with the implementation of a contractual market entry strategy, where the transaction partner carries out local production activities in the target market. Realizing an economic activity within the corporation can otherwise be understood as an implementation of an FDI strategy, where a corporation independently operates its local production site in the target market. Since transaction cost theory argues that transaction costs are lower when economic activities are carried out internally, it accordingly suggests that corporations prefer to internationalize internally by establishing wholly owned subsidiaries abroad (Meyer, 2000, p. 80).

Williamson introduced three parameters to compare transaction costs of different coordination forms. The parameters include the characteristics of the involved individuals, the characteristics of the situation under which the transaction takes place, and the characteristic

of the transaction itself. Further premises are assumed: bounded rationality, opportunistic behavior of individuals, and individuals' aim to minimize transaction costs. Bounded rationality as a behavioral disposition is based on the assumption that individuals have to work under three unavoidable constraints: availability of only limited information, insufficient capacity to evaluate and process this information, and a restricted amount of time. Opportunistic behavior as a behavioral disposition is based on the assumption of the principle of maximizing utility. This implies that individuals, in order to maximize their personal utility, intentionally manipulate and fool others. Thus, costs are caused by accomplishing a transaction due to assumed premises that prevail, bounded rationality, and opportunistic behavior of individuals.

To evaluate which coordination form is the most efficient and thus minimize transaction costs, transaction cost theory suggests considering further variables that influence the parameter of the situation in which the transaction takes place, as well as the parameter of the characteristic of the transaction itself, since these variables also directly influence transaction costs (Schonert, 2008, p. 168 et seq.).

Uncertainty is an important variable that influences the situation in which a transaction occurs as well as the transaction itself and thus has an impact on transaction costs. Williamson differentiated between primary uncertainty and secondary uncertainty. Primary uncertainty can be understood as uncertainty that is unpredictable, such as future environmental conditions that cannot be foreseen, and thus cannot be influenced. Secondary uncertainty, which is based on incomplete data availability and imperfect communication among transaction partners, can be influenced.

A second variable, which influences the situation in which a transaction takes place as well as the transaction itself, is complexity. Transaction cost theory suggests that uncertainty and complexity increase transaction costs. First, high levels of uncertainty and complexity increase initiation costs, which is explained by the fact that costs for gathering relevant information to reduce uncertainty and complexity increase in uncertain conditions that require a detailed process of information gathering. Second, agreement costs increase when the transaction partner attempts to consider all eventualities in the contractual agreement. Third, adjustment and control costs increase when future circumstances cannot be fully anticipated.

A third variable that drives transaction costs is investment patterns of transaction partners. If one partner makes a transaction-specific investment, this can be seen as a sunk cost. The investing transaction partner is confronted with lock-in effects and consequently has higher interest in the maintenance of the contractual relation as it aims to amortize the investment it

has made. Transaction cost theory states that if one transaction partner makes a transaction-specific investment, transaction costs increase. Initiation costs grow because information costs to analyze whether the non-investing transaction partner will fulfill the investing party's expectations are high. The non-investing transaction partner, on the other hand, is more exposed to opportunistic behavior. Agreement costs consequently increase as the investing partner attempts to prevent its business partners from behaving opportunistically by including stipulations about this in the contractual agreement. Finally, adjustment and control costs increase if the investing party attempts to inhibit the opportunistic behavior of its business partners. Transaction cost theory thus proposes that the more asymmetric investment patterns are among transaction partners, the higher the transaction costs, particularly initiation, agreement, and control costs.

A fourth variable, which influences the situation in which a transaction takes place as well as the transaction itself, is the distribution of information among the involved transaction partners. The more asymmetrically information is distributed among the transaction parties, the higher the transaction costs for partners with a lower level of information. Initiation and agreement costs increase to compensate for the information deficit, as it is assumed that an opportunistic, well-informed transaction partner would otherwise exploit its information advantage. Agreement costs increase in order to reduce the information deficit or when the other transaction party holds an information advantage. In addition, adjustment and control costs rise to minimize the opportunistic leeway that asymmetric information distribution brings.

A fifth variable influencing a transaction is the number of transaction partners. It is assumed that the more transaction partners, the less their individual market power. This results in a competitive situation where each transaction partners' leeway for opportunistic behavior is low, which directly minimizes transaction costs.

A sixth variable that affects transactions is the number of transactions that take place. As long as transactions can be carried out internally within a corporation with lower transaction costs, compared to costs that would be incurred if the transaction were carried out in the market, the transaction will not be outsourced. If, however, firm size increases and the number of transactions rises, transactions can no longer be carried out efficiently in an exclusively internal manner. Transaction theory moreover assumes that if transactions are carried out several times with the same external transaction partner, a trend towards decreasing costs reduces transaction costs. The cost of gathering information about the transaction partner for

example only applies at the beginning of the contractual relation so initiation costs decrease with a rising number of transactions.

The final variable influencing the situation in which a transaction takes place as well as the transaction itself is the transaction climate, which, although it is difficult to quantify, is an important variable that impacts transaction costs. If both transaction partners sense a positive transaction climate, transactions can be realized more easily, hence resulting in low transaction costs. The same logic applies when transaction partners follow the same code of conduct, which also reduces transaction costs. Finally, transaction cost theory argues that if transaction partners trust each other, this directly reduces initiation, agreement, adjustment, and control costs (Schonert, 2008, p. 171 et seq.).

The following implications can thus be drawn from the transaction cost theory, which is based on the premise that economic actors have a bounded rationality and act opportunistically. If the level of uncertainty, complexity or transaction-specific investment is high, internal implementation of the business activity within the corporation is suggested. If information is distributed asymmetrically and/or the number of transaction partners is limited, transaction theory further encourages corporations to carry out their business activities internally. If, however, the above-mentioned variables act in the other direction, the business activity should be carried out with an external partner. Transaction cost theory moreover proposes business activities should be carried out with external partners when many transaction partners are available and thus individual market power is low and/or the business climate is good and trust among business partners prevails (Schonert, 2008, p. 174 et seq.).

### *Critique*

A central assumption of the transaction cost theory is that in the case of uncertainty, corporations should carry out their business activities internally. Applying this to the internationalization context implies that if uncertainty in targeted, foreign markets is high, corporations need to implement an FDI rather than a contractual market entry strategy. Due to bounded rationality, it is difficult to anticipate all future eventualities that would call for adaptations within the contractual agreement. Accordingly, transaction cost theory indicates that economic activity should be internalized to absorb external uncertainty and an associated company should thus be set up abroad. What transaction cost theory neglects to consider, however, is the advantage of strategic flexibility. Especially in foreign markets with a high level of uncertainty, economic as well as political framework conditions can easily change.

This frequently requires corporations to adapt existing business concepts and market development strategies to respond adequately to environmental changes. Corporations thus benefit from maintaining flexibility to retain the possibility of adapting initial entry modes if necessary. Cooperative entry modes thus pose an attractive alternative since they can be easily adjusted by either intensifying or reducing a corporation's commitment to the market. Empirical analyses underline this notion. Studies have demonstrated that countries demonstrating a high level of uncertainty should be tapped primarily with cooperative entry modes rather than the establishment of independent subsidiaries (Weiss, 1996, p. 27). These findings clearly contradict the conclusions transaction cost theorists have drawn regarding uncertainty and the choice of market entry mode.

Moreover, transaction cost theory assumes that anxieties about a partner potentially exhibiting opportunistic behavior remain steady over time. Transaction cost theory incidentally notes that the transaction climate influences the coordination form. It has been suggested that the nature of the relationship among transaction partners, namely whether it can be described as a trust-based partnership, considerably influences the transaction climate. Nonetheless, transaction cost theory has not analyzed whether experience and familiarity with a partner reduce these concerns and may thus affect the mode of market entry. Other theoretical concepts have presented the notions of experience and familiarity regarding the partner as well as the target market in general. Scholars, including Johansson and Vahlne (1977), have introduced the hypothesis of incremental commitment with experience. These researchers as well as others have found that more experienced firms tend to enter into wholly owned subsidiaries (Meyer, 2000, p. 80). This is another contradiction to transaction cost theory, which argues that uncertainty is more likely to provoke an FDI strategy.

Criticism has also been raised in regard to the lack of an explicit definition of transaction costs. With Williamson's set of premises, transaction cost theory defines its object of investigation—the transaction and its costs. By doing so, however, other aspects of analysis are neglected. Although transaction costs constitute an important part of overall costs, they nonetheless represent only one type of cost. Production costs, for example, which also constitute an important cost component, are not considered within this theoretical concept (Schonert, 2008, p. 168 et seq.).

Another point of critique also faced by many other economic concepts, is the static approach of the theory. Influencing factors such as economic and political conditions and company-specific indicators that influence the choice of market entry strategy are considered to be



static in this theory but should be considered as dynamic elements (Morschett et al., 2010, p. 63 et seq.).

A final and likely the most prominent point of critique is that operationalization of the theory is very difficult if not impossible. This is based on the failure of transaction cost theorists to develop instruments to measure transaction costs, a scale of transaction costs, or a technique to calculate these. Even Williamson criticized the transaction cost concept for this measurement problem. This shortcoming is why claims based on transaction cost theory are only very rarely empirically confirmed. Few empirical studies have been conducted to contrast different coordination forms and the transaction costs these forms provoke. The measurement problem also impedes practitioners when drawing conclusions from the concept, since practical implications can be derived only limitedly when transaction costs cannot be quantified (Chang & Rosenzweig, 2001, p. 750).

Although transaction cost theory thus seems not to be an adequate theoretical concept that can be applied generally to support corporations during the process of internationalization and market exploitation, it nonetheless has demonstrated relevance for integrating transaction-specific considerations within corporations' internationalization and market exploitation strategies.

### 3.4.2. Internalization theory

#### *The theoretical concept*

Internalization theory is another theoretical concept that attempts to explain corporations' internationalization tendencies. This theoretical idea can be traced back primarily to Buckley and Casson (1976). Although it is based on transaction cost analysis, it was developed independent of Williamson's work.

The term internalization has been used to indicate that an economic transaction realized via the market is substituted via internal organizational procedures. In the international context, wholly owned subsidiaries originate abroad when corporations internalize economic activities. Buckley and Casson principally performed comparative analysis of FDI and contractual market entry strategies, specifically the licensing agreement. To comparatively analyze the incentive to internalize versus the costs of internalization, Buckley and Casson conducted a comparative transaction cost analysis of both organization forms (Schonert, 2008, p. 190). As the imperfection of markets is assumed, the implementation of economic activities via the market poses risk and causes costs. The following assumptions can be made

when analyzing an economic activity undertaken via the market. First, it is assumed that the prospective development of international markets can only be predicted to a limited extent. Second, it is assumed that pricing structures of the market limit a company's pricing leeway. A third aspect that has been considered is the occurrence of cost-intensive negotiation processes. Finally, it has been suggested that the information paradox as well as government interventions pose additional risks when executing an economic activity via the market. Internalizing economic activities, however, also evokes costs. It is assumed that production sites that are not used to capacity can cause diseconomies of scale. Further, internal communication and administration cost occur. Finally, discrimination against foreign corporations in international markets could also distort the competitive environment (Meyer, 2000, p. 81 et seq.).

It is thus apparent that arguments of the internalization theory significantly overlap those of the transaction cost theory. The internalization theory places greater emphasis on and clearly defines the imperfection of markets. Furthermore, Buckley and Casson explicitly accentuated the imperfect market of managerial and technological competences and expertise. Accordingly, internalization theorists propose that if a company's competitive advantage is based on its technological and managerial knowledge and expertise, internalization is the advised strategy. Internalization scholars thus suggest entering new markets via the implementation of wholly owned subsidiaries abroad. Another important aspect that internalization scholars have taken into account is location-specific advantage, which further promotes the implementation of an FDI market entry strategy. Contrary to transaction cost theorists, internalization scholars do not explicitly accentuate the behavioral patterns of economic actors (Weiss, 1996, p. 31).

Both theoretical approaches, the transaction cost theory and the internalization theory, reach the same conclusion. They both evaluate the internalization of economic activities abroad as relatively advantageousness. Thus, these theoretical concepts explain why corporations invest in foreign entities and how internationally operating corporations emerge (Meyer, 2000, p. 85; Röderstein, 2009, p. 50 et seq.).

### *Critique*

As internalization theory is similar to transaction cost theory, criticism is similar. A major point of critique is that the analytical framework focuses exclusively on micro-analytical aspects of specific transactions. It neglects other important influencing variables such as

production costs, strategic considerations, and country- and sector-specific criteria, which are not included in evaluation. Casson stated in a critical evaluation of this theoretical approach that “internalization is only one of a number of principles needed to explain international business behavior [...]” (Casson, 1992, p. 26). The negligence of country-specific indicators such as economic and political framework conditions is seen as a major shortcoming of this theoretical approach. Without considering these influencing variables, a comprehensive comparative analysis considering the extensive range of different market entry strategies cannot be realized. Transaction cost theory and internalization theory compare only the alternatives of a licensing agreement and setting up a wholly owned legal entity abroad. The most prominent point of criticism the internalization theory faces, similar to the transaction cost theory, is its limited applicability and operationalization, which is detailed in the transaction cost theory section (Weiss, 1996, p. 28).

Accordingly, the exclusive application of the transaction cost or internalization theory to explain corporations’ internationalization strategies is not appropriate since relevant influencing factors, which also determine a corporation’s internationalization strategy, are neglected. Nonetheless, these theoretical concepts offer valuable insights that should be considered when analyzing corporations’ internationalization strategies.

### **3.5. Links between strategic management and industrial organization**

Since the 1980s, there has been increasing interest in integrating economics and management literature. Porter was the first, in the context of corporations’ internationalization strategies, to introduce industrial organization theory in the field of strategic management. He thereby integrated two research fields that previously operated separately. With his concepts, Porter made valuable contributions to the field of market entry and internationalization strategies. Some of his most influential models are presented in the following.

One of Porter’s key concepts elaborates on the necessity of formulating a corporate strategy to effectively deal with competition (Porter, 1980). For Porter, competition is not only a matter of different players. Industry- and country-specific structures as well as political, economic, and regulatory characteristics of markets differ and affect competitive structures. According to Porter, five competitive forces determine an industry’s profitability: customers, suppliers, potential entrants, substitute products, and the intensity of competitive rivalry. Porter argued that a corporate strategy should position a company within its industry to optimally protect it

from and positively influence these competitive forces. He suggested that the source of each force should be analyzed in detail. In this context, it is interesting that Porter explicitly focuses on market entry barriers that potential entrants need to overcome: economies of scale, capital requirements, cost disadvantages, government policies, product differentiation, and access to channels of distribution. Porter proposed that strategists of corporations need to analyze these five forces and their firm-specific implications to develop a corporate strategy that contains strategic moves such as accessing new markets in order to influence the balance of competitive forces and improve the company's position (Kretzberg, 2008, p. 40 et seq.).

Porter moreover underlined that a dynamic theory of strategy should not concentrate solely on the individual firm level but should also consider characteristics of the industrial sector and the entire economic structure. He also accentuated that exogenous change should be considered, which might appear, for instance, due to governmental regulations or technological innovation. Porter thus explicitly emphasized the importance of the local environment. "Instead of solely within the firm, the true origin of competitive advantage may be the proximate or local environment in which a firm is based" (Porter, 1991, p. 110). Porter highlighted four attributes of the local environment, collectively termed the diamond: factor conditions; demand conditions; related and supporting industries; and firm strategy, structure, and rivalry. He also underscored that the government has a strong influence on all elements of the diamond since it can act as a catalyst or a challenger. By introducing the diamond concept, Porter clearly demonstrated that local environments directly affect a firm's corporate strategy and its strategic choices. Nonetheless, he recognized that firms themselves maintain a central role and that although local environments strongly affect firms' performance, the importance of having a corporate strategy should not be underestimated (Kretzberg, 2008, p. 44 et seq.).

Another important contribution Porter made within the field of internationalization strategies is his emphasis on the process-related character of market entry strategies. He underlined that market entry does not occur at a single specific moment and that market entry strategies consist of various phases. Porter differentiated among the pre-entry phase, where feasibility studies are conducted to evaluate whether market entry will be profitable, the entry phase, where a company sets up its local business activities, the graduation phase, where the newcomer modifies its entry strategy towards a long-term strategy, and finally, the post-entry phase, where the company preserves its position within the local industrial setting. Porter also elaborated that the degree of irreversible investment and thus the level of exit barriers constantly increase with a gradual market entry strategy (Kretzberg, 2008, p. 33 et seq.).

Porter made valuable contributions to the field of market entry and internationalization strategies. In particular, his accent on the importance of the local environment should be noted. The next chapters, which discuss the decision-making process of corporations' internationalization and market exploitation strategies, consider his concepts and ideas and incorporate them in the analysis of influencing factors that determine internationalization strategies of corporations.

### **3.6. The eclectic paradigm**

Various diverse theoretical strands have been developed to explain the internationalization processes of corporations. These explanations, however, have a partial analytical character since a limited set of influencing factors is considered to explain internationalization strategies. John Dunning, who developed the 'eclectic paradigm', was the first to develop an explanatory approach that combines diverse theoretical strands to why corporations internationalize.

#### *The theoretical concept*

Dunning's (1977, 1993, 2000) theoretical approach combines several elements of distinct theoretical concepts to explain why and how companies enter new markets. For this reason, the theoretical model is called the eclectic paradigm. This theoretical model has dominated research on corporations' internationalization and market exploitation strategies since the 1970s.

The eclectic paradigm incorporates ideas of the monopolistic rent theory and refers to theoretical ideas of economic geography and thus location theory. It also integrates considerations of the transaction cost (Coase, 1937; Williamson, 1975) and internalization theories (Buckley & Casson, 1976; Wortmann, 2008, p. 122 et seq.).

The eclectic paradigm identifies three central motives for firms to internationalize. First, it states that a company wishing to enter a new market via an FDI strategy must have a firm-specific advantage, or an ownership advantage, which results in a comparative advantage over firms already carrying out business activities in the target market. These firm-specific advantages are related to diverse fields of expertise such as technological or managerial competences. Second, the concept suggests that the target market should offer a location-specific advantage to incentivize firms to make an investment there. Facilitating market access by evading trade barriers, for instance, would constitute such an advantage. Location-

specific advantages could also result in low factor costs such as personnel, land, and energy costs. Third, the eclectic paradigm claims that firms investing abroad must have an internalizing advantage. Hence, it must be more cost-effective for firms to exploit their ownership advantages autonomously by following an FDI strategy compared to following a contractual market entry strategy.

Dunning claimed that all three conditions need to be fulfilled for firms to capture new markets via an FDI strategy (see table 4) (Wortmann, 2008, p. 122 et seq.).

*Table 4: The OLI Model*

	<b>O</b> wnership Advantage	<b>L</b> ocation Advantage	<b>I</b> nternalization Advantage
<b>Foreign Direct Investment Strategy</b>	Yes	Yes	Yes
<b>Contractual Market Entry Strategy</b>	Yes	Yes	No
<b>Export Strategy</b>	Yes	No	No

Source: Own table based on Meyer, 2000, p.94.

The eclectic paradigm is also often called the OLI paradigm, which represents three conditions—O for ownership advantage, L for location advantage, and I for internalizing advantage (see table 4). It is the first theoretical approach that addresses why, where, and how corporations should internationalize: why, because corporations have an ownership advantage; where, because location advantages arise when producing abroad; and how, because internalization advantages can be realized (Meyer, 2000, p. 94).

Empirical studies support Dunning’s eclectic approach (see Agarwal & Ramaswami, 1992; Brouthers, Brouthers & Werner, 1996). Agarwal and Ramaswami (1992), for instance, detected ownership advantages such as the ability to develop differentiated products, location advantages, to exploit the market potential and internalization advantages, to reduce contractual risks as decisive criteria for firms in order to determine their market entry strategy.

### *Critique*

Dunning’s approach has received significant attention since “complex entry mode decisions can neither be explained by single variables nor by groups of variables based on a single

theory” (Morschett et al., 2010, p. 72). Different variables should be combined within a multi-theoretical framework, which was first achieved in Dunning’s eclectic paradigm. The integration of location-specific factors in particular has been positively perceived since this allows the theoretical concept to cover all possible market entry strategies, namely export, contractual market entry, and FDI strategies. It is also the first theoretical approach to combine trade and location theories (Meyer, 2000, p. 94 et seq.).

However, the concept has also faced criticism. A major point of critique is that Dunning’s approach systematizes and enumerates relevant influencing factors that determine the choice of market entry but does not analyze the connection among and effects of the different factors, calling into question its explanatory contribution (Meyer, 2000, p. 93 et seq.; Weiss, 1996, p. 34 et seq.). Moreover, critics claim that the approach’s generality neglects to consider some important influencing elements. They have argued that the concept does not sufficiently assess firm-specific aspects such as companies’ objectives as well as industry-specific characteristics. Stehn (1992) underlined the neglect of important variables and built on the eclectic paradigm by integrating a fourth element that significantly influences the choice of market entry strategy—trade barriers. He thereby emphasized that market-specific aspects, particularly trade barriers, play a significant role in determining market entry strategies. The failure to explicitly highlight market-specific influencing factors is thus seen as a major shortcoming of Dunning’s initial approach (Meyer, 2000, p. 93 et seq.).

A further critical aspect is that by conflating different theoretical strands, points of critique with which these individual strands are confronted, are applied equally to the eclectic approach. Criticism originating from, for example, the transaction cost theory thus equally applies to the eclectic paradigm. The most prominent example is the lack of an explanation in regard to how to quantify transaction costs, which impedes operationalization of the model. Unsurprisingly, when applying the OLI paradigm, many empirical studies exclude the internalization advantage since transaction costs cannot be quantified (see for example Brouthers et al., 1996; Clegg, 1990; Terpstra & Yu, 1988).

Another problem is that Dunning’s theory exclusively focuses on explaining FDI strategies. However, the eclectic paradigm is applicable to the entire internationalization process, taking into account all possible market entry strategies. Accordingly, critics have stated that Dunning did not exploit the potential offered by the concept since he primarily focused on the reasoning behind the decision to implement an FDI strategy (Meyer, 2000, p. 93 et seq.).

The sharpest critique was yielded by Buckley and Casson (1998), who claimed that the eclectic approach is overly broad, that it is “too much of a ‘paradigm’ or a ‘framework’ and

too little of a ‘model’” (Buckley & Casson, 1998, p. 540). They argued that the eclectic paradigm falls short of providing advice on research design and hypothesis testing and even claimed that the eclectic approach generates confusion that can be reduced only by formal modeling (Buckley & Casson, 1998, p. 540).

Dunning’s major achievement was integrating several theoretical strands within a single paradigm that aims to explain the internationalization process of corporations. For the first time, various relevant factors that determine internationalization strategies were considered, significantly increasing the explanatory power of the theoretical concept.

### **3.7. Critical discussion on existing theoretical concepts**

The theoretical review has discussed multiple theoretical approaches that explain numerous aspects of the internationalization and market exploitation strategies of corporations. However, open questions regarding a comprehensive realization of international business activities remain. Likewise, the practical applicability of these concepts is limited and can be traced back to the following features: partial analysis, one-dimensional considerations, and the lack of connection with business realities (Meyer, 2000, p. 100).

The issue of partial analysis is relevant since the theoretical approaches explain international market entry strategies and the choice of market entry strategy by referring to several influencing factors (Macharzina & Oesterle, 1997). However, of many possible influencing elements, only some aspects are considered when evaluating internationalization and market exploitation strategies: country- and location-specific aspects within international trade and location theories, competition-specific aspects within the monopolistic rent and oligopolistic theories, product-specific aspects within the product life cycle theory, behavior-oriented aspects within the internationalization process model and behavioral theory, and finally, firm-specific aspects within the transaction cost and internalization theories (Meyer, 2000, p. 100 et seq.). The frequently missing consideration of market-specific aspects is a major shortcoming of existing theoretical concepts (Hennart, 2009). When market-specific aspects are taken into account, only a limited number of factors is considered. Accordingly, the need to develop a comprehensive approach that covers country- and location-specific aspects, competitive-specific aspects, product-specific aspects, behavior-oriented-specific aspects, and firm-specific aspects is widely agreed on. However, a comprehensive approach that is capable of comprehensively explaining internationalization and market exploitation strategies of



corporations has not yet been developed (Hill et al., 1990). It is thus the aim of this research to develop a comprehensive approach based on the eclectic paradigm, which encompasses all relevant influencing factors, to support corporations during the processes of internationalization and market exploitation.

Most of the above-mentioned theoretical concepts have been criticized extensively for their one-dimensional character. Approaches frequently aim to explain one or a maximum of two choices of market entry strategy. Whereas trade and location theories primarily aim to analyze export strategies, theories of industrial economics and theories of the firm predominantly explain FDI strategies. Although transaction cost theory does mention licensing agreements, these are considered a second-best option if FDI strategies are inappropriate (Clegg, 1990). Only the eclectic paradigm, the product life cycle theory, and the internationalization process model explicitly evaluate all relevant choices of market entry strategy (Meyer, 2000, p. 101). The remainder is aimed at developing an approach that supports corporations in identifying markets that can be exploited more effectively via the implementation of local production activities. The developed conceptual model thus aims to help corporations decide when to adapt an export strategy towards a local production strategy. Whether these local production strategies are implemented via an FDI strategy or a contractual market entry strategy is considered to be of secondary importance in this context.

Finally, the theoretical conceptions lack a connection to business realities. The focus of the existing literature is on export and FDI strategies. In today's business world, this is insufficient to support corporations during the process of internationalization. One reason for this is dynamic development, particularly in emerging markets. This has caused the appearance of many potential business partners in diverse international markets. Accordingly, cooperative strategies and thus contractual market entry strategies become more feasible. Another reason can be traced to the debate on intercultural management, which underlines the importance of cooperating with local partners. This debate has evoked increased interest in the private sector to enter international markets via cooperative and thus contractual market entry strategies. In academia, however, this has so far not received sufficient attention (Earley & Singh, 1995). The present research does not explicitly elaborate on the critique that cooperative strategies have not received enough academic attention. It does, however, reflect on FDI as well as contractual market entry strategies when analyzing whether corporations should adapt their market exploitation strategies from an export strategy towards a local production strategy.

A second aspect that should be considered when explaining and evaluating internationalization and market exploitation strategies is the increasing importance of economic communities and free trade zones in the current international economic system. Since these economic communities offer the potential to supply entire regions from one location, this must be considered in corporations' internationalization and market exploitation strategies. However, existing theoretical concepts rarely consider the implications of regional economic communities on corporations' internationalization and market exploitation strategies (Meyer, 2000, p. 103 et seq.; Welge & Holtbrügge, 1997, p. 1054 et seq.). The remainder thus explicitly considers the implications economic communities have on corporations' internationalization and market exploitation strategies in an effort to effectively support corporations during the internationalization and market exploitation processes.

Third, the most critical shortcoming of existing theoretical approaches is their limited practical applicability. Existing theoretical concepts do not or only very limitedly offer support for corporations wishing to internationalize. Especially within the complex context of globalization, where framework conditions are constantly altered, the private sector needs scientific support regarding estimations of where and how to internationalize. However, there is currently a communication gap between academia and practitioners (Corley, 1992; Meyer, 2000, p. 100 et seq.). The present research is aimed at attenuating this gap. Therefore, a practice-oriented decision-making process for corporations' internationalization and market exploitation strategies is developed, which is structured in reasonable process steps to which relevant influencing factors are assigned. The establishment of such a process model is aimed at supporting corporations during the process of internationalization by providing an analytical way to select markets that demonstrate potential to be exploited more effectively with the implementation of local production activities.

Implementation-oriented research based upon an eclectic approach, which combines and integrates different theoretical strands, should receive more attention in future concepts that aim to explain the internationalization processes of corporations (Canabal & White, 2008, p. 278; Hill et al., 1990; Morschett et al., 2008, p. 543). It is in this area that this research aims to make a contribution.

### **3.8. Timing strategies within the process of internationalization**

Within the process of internationalization another important aspect should be considered, namely choosing the right point in time to exploit a market. Since market conditions can change rapidly due to political changes, competitive threats, and technological developments, it is particularly important to exploit markets adequately at a suitable time. Finding the right time to adapt market strategies to exploit international markets effectively and reasonably prioritize potential markets is another decisive element to ensure successful internationalization.

Timing strategies and their respective advantages and disadvantages have been analyzed from distinctive perspectives. Lymbersky (Lymbersky, 2008, p. 59 et seq.) elaborated on the corporation-centric perspective. Also, it is necessary to reflect upon the competitive environment perspective to reach a sound conclusion about when to exploit an international market. The following examines both perspectives in more detail.

#### **3.8.1. Timing strategies: a corporation-centric perspective**

Lymbersky (2008) elaborated on timing strategies in the context of market entry strategies from a corporation-centric perspective. Accordingly, his strategic approaches—the waterfall strategy, the sprinkler strategy, and the wave strategy—primarily depend upon firm-specific influencing factors. The following sub-sections investigate these three approaches and point out corresponding advantages and disadvantages.

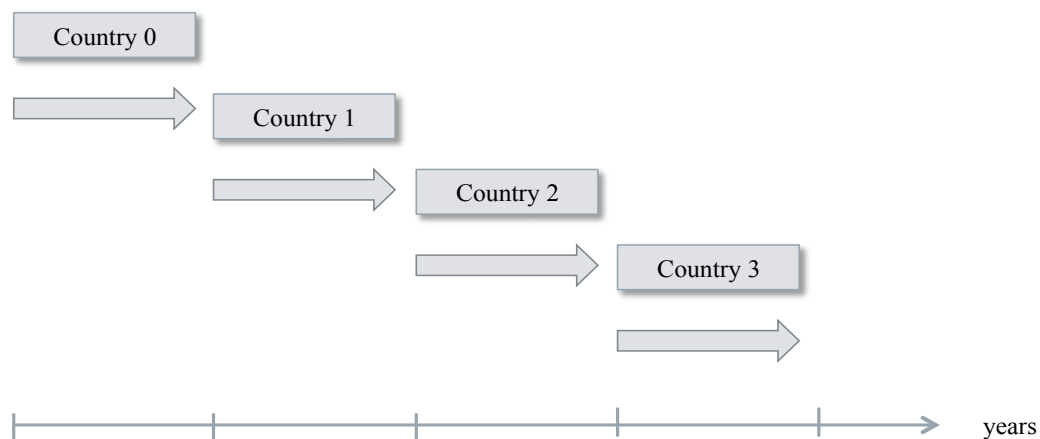
##### *Waterfall strategy*

The waterfall strategy implies that corporations enter markets or adapt their market exploitation strategies successively (see figure 6). It is assumed that untapped markets offer the greatest potential and are accessed first. After successful implementation of the market exploitation strategy in the first market, this strategy suggests that corporations penetrate the market that offers the next greatest potential.

Following a waterfall strategy enables corporations to learn from their mistakes within the process of internationalization. Since this strategy empowers companies to gather expertise and experience on market exploitation gradually, the corporation can adjust its strategy to improve future market exploitation if necessary, minimizing the chances of failure. However, as mentioned previously, experiences in one country are not necessarily applicable or

valuable for market exploitation in another country. Therefore, a detailed evaluation is necessary to determine whether gained experiences are applicable. Making use of a blueprint without analyzing country-specific factors can also evoke negative implications. A positive aspect of the waterfall strategy is that resources are not simultaneously required in multiple countries. Following a waterfall strategy, however, generally decelerates the speed of internationalization. This could give competitors a decisive time lead, which they could use to establish a secure position within the market and implement entry barriers for late-coming competitors (Lymbersky, 2008, p. 59 et seq.; Sternad et al., 2013, p. 35 et seq.). The next section analyzes this dimension in more detail and examines timing strategies from a competitive environment perspective.

*Figure 6: The Waterfall Strategy*



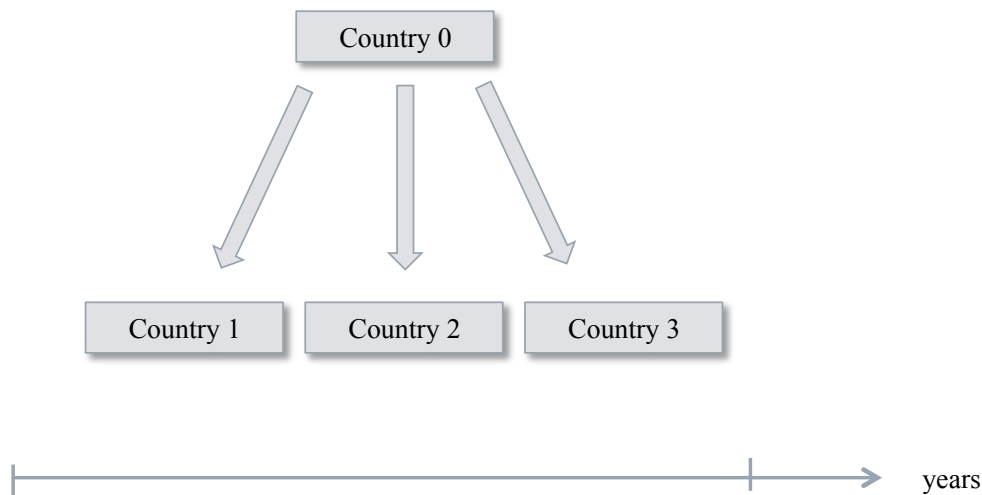
Source: Own figure based on Lymbersky, 2008, p.60.

### *Sprinkler strategy*

Corporations that follow the sprinkler strategy simultaneously exploit all relevant markets offering potential (see figure 7). The level of risk is high since many financial resources as well as an experienced workforce willing to work abroad are required concurrently. Nonetheless, a positive aspect of a simultaneous approach is that entry risk is shared among several markets. Moreover, carrying out several market exploitation strategies at once means strategies must be standardized. However, standardized market exploitation strategies increase the risk of making repeated errors. If these errors turn out to be major flaws, this can cause serious problems for the company. A central advantage of the sprinkler strategy is that exploiting all relevant markets immediately enables corporations to establish a secure position within each market. Entry barriers in regard to late-coming competitors can be implemented,

which is examined in more detail in the section examining timing strategies from a competitive environment perspective (Lymbersky, 2008, p. 60 et seq.; Sternad et al., 2013, p. 36).

*Figure 7: The Sprinkler Strategy*



Source: Own figure based on Lymbersky, 2008, p.61.

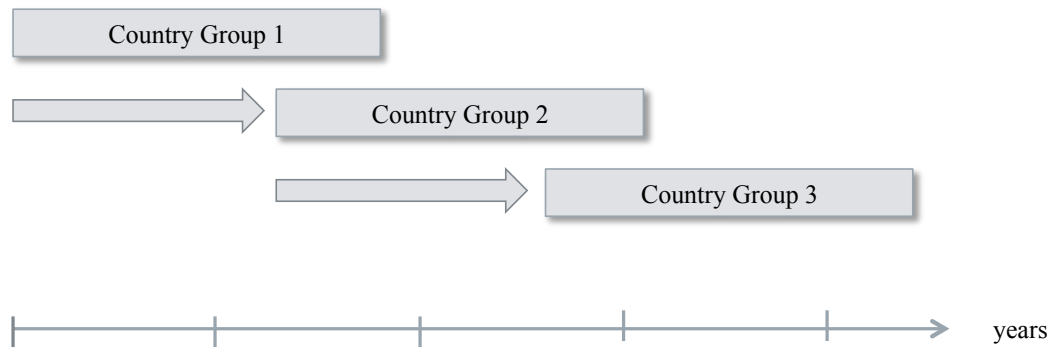
### *Wave strategy*

Examining internationalization strategies of international corporations indicates that a third alternative is often employed, a mixed strategy, or what Lymbersky (2008) introduced as the wave strategy. Lymbersky suggested that if companies have a certain level of resources, similar markets can be exploited simultaneously. In subsequent waves, heterogeneous markets can be penetrated (see figure 8).

A major advantage of the wave strategy is that this strategic approach enables corporations to include experiences directly gained during the first wave in the strategic planning process of the second wave, so learning effects are high. The literature argues that within the first wave, markets similar to the home country are entered, which corresponds with the explanatory approach of the internationalization process model that states that psychic distance and liability of foreignness cause corporations to enter neighboring countries with a similar cultural background first. This explanatory approach likewise suggests that the expected risk of failure is minimized since similar markets are entered (Lymbersky, 2008, p. 61 et seq.). However, whether markets similar to the home market should be tapped first by

internationalizing corporations is questionable. It is plausible that markets offering the highest potential should be entered first. This aspect is analyzed in more detail later.

*Figure 8: The Wave Strategy*



Source: Own figure based on Lymbersky, 2008, p.62.

Analyzing timing strategies from a corporation-specific perspective demonstrates that firm-specific characteristics such as financial and personnel resources strongly impact the choice of strategic approach. However, the competitive environment perspective should also be considered when choosing the right time to enter new markets during the process of internationalization.

### 3.8.2. Timing strategies: a competitive environment perspective

Adequately exploiting markets is also a matter of overcoming market entry barriers, which *inter alia* have been established by competitors already present in the market. Internationalizing corporations can determine the nature and scope of market barriers by their choice of timing strategy. Correspondingly, a corporation can choose to either adapt the market exploitation strategy at an early stage and enter a market with an adapted strategy as a pioneer, or adapt the market exploitation strategy at a later stage when competitors have already entered the market or adapted their own market exploitation strategy. In regard to the latter, it is worthwhile to further differentiate this group since it is important whether a follower adapts a market exploitation strategy after a short period of time when the pioneer was adapting it, as an early follower, or whether it adapts a strategy at a later point in time, as a late follower (Oelsnitz, 2000, p. 139). The following sub-sections assess characteristics, advantages, and disadvantages of being a pioneer, an early follower, or a late follower.

### *Pioneers*

Corporations that enter international markets or adapting market exploitation strategies first are called pioneers or innovators. Since pioneers enter international markets or adapt their market exploitation strategy first, the chance of capturing a significant market share is great, implying an attractive potential for return and profit. Attaining a large market share also empowers pioneers to realize cost advantages. Moreover, early market entry enables an innovator to gather experience, know-how, and market expertise. This accumulated knowledge results in experienced-based cost advantages and increases productivity (Berger, 2005, p. 35). Further, pioneers benefit from image and awareness advantages, which result in the creation of buyer switching costs. Early market exploitation also enables innovators to establish standards within their fields of business.

However, when exploiting a market as a pioneer, a corporation also has to deal with negative aspects. The market risk, for instance, is particularly high since market development cannot be adequately prognosticated, as empirical values are nonexistent. Moreover, pioneers have to promote infrastructural market development and establish a local network. Business relationships with suppliers must be built, customers need to be convinced, and relationships with governmental bodies must be established (Oelsnitz, 2000, p. 139 et seq.).

In general, empirical studies have underlined that although pioneers face higher market entry risks and costs, the return and profit potential is much higher (see for example Robinson, Kalyanaram & Urban, 1994).

### *Early followers*

Corporations that follow a pioneer after a short period are called early followers or imitators. One of the main advantages early followers have is their opportunity to observe market development and the pioneer's performance. This enables early imitators to gather market insights a priori and when exploiting the market, circumvent mistakes the pioneer has made (Berger, 2005, p. 69). Correspondingly, early followers face lower market risk. Early imitators also benefit from the market development undertaken by the pioneer. Pioneers may have established suppliers, introduced products to customers, and initiated interactions with relevant governmental agencies.

However, early followers face disadvantages, especially with respect to the pioneer. Since the innovator exploited the market earlier, it has already had the chance to gather market-specific know-how and experiences, which provides an advantage to the pioneer and a disadvantage to the early follower. The imitator also has to deal with the innovator's market-dominating

position. Since the early follower exploits the market only a short period after the pioneer, it can still influence the market structure and common market standards. Another critical aspect early imitators face is market share-based cost-disadvantage. However, since early followers enter the market with only a slight time delay, the market is still in an early phase so gaining market share is still relatively easy (Oelsnitz, 2000, p. 139 et seq.).

### *Late followers*

Corporations that exploit new markets long after their competitors do so are called late followers or imitators. Late followers can be characterized as corporations that primarily exploit markets that are no longer in an early phase of growth, so the level of uncertainty is no longer high. A major advantage of being a late follower is the ability to monitor market development from a secure position and observe competitors' performance. This enables late followers to circumvent mistakes that competitors made when entering the market. Moreover, certain technologies, standards, products, and processes have been established by the existing market participants and proven to be effective. These can be adopted by late imitators without additional expenses. Another aspect late followers may profit from is an existing network with regard to business partners, suppliers, customers, and governmental agencies that pioneers and early followers have previously established (Chang & Rhee, 2011, p. 981). Late imitators hence have lower costs to enter and exploit markets than innovators and early imitators (Berger, 2005, p. 69).

What puts late followers at a disadvantage, however, is a deficit in regard to market knowledge and experience that their competitors have gathered since entering the market. Further, the lack of a local network may be a major problem for latecomers. Correspondingly, suppliers need to be found that have capacity to supply another market participant and are not contractually obliged not to enter business relationships with its long-standing customers' competitors. Governmental agencies need to be lobbied extensively in order to bring late followers up to par with existing market participants. Finally, customers need to be convinced to switch products even though this entails switching costs. For these reasons, gaining market share is a tough challenge (Oelsnitz, 2000, p. 143 et seq.).

The structure-conduct-performance paradigm further underlines the relevance of taking a competitive environment perspective since it demonstrates that the economic success of a corporation is primarily based on the structure of its competitive environment. It accentuates the importance of structural elements that are barriers that close off specific industries or



entire markets. These barriers can take various forms: protectionist measures introduced by governments to limit the number of competitors on the local market, contractual agreements that pioneers and early followers have with suppliers that prevent those suppliers from entering into business relationships with other competitors, experience-based cost advantages of previously established competitors, and switching costs customers must accept when changing products. The interdependence of market structure and market conduct is high, which, in the end, decisively determines a corporation's market performance (Oelsnitz, 2000, p. 147 et seq.).

It has been demonstrated that corporations wishing to internationalize have to adopt various perspectives. On the one hand, a corporation-centric perspective needs to be taken. A detailed internal analysis needs to be conducted to evaluate internal resources and intra-organizational strengths and weaknesses. On the other hand, a competitive environment perspective needs to be considered, and an industry structure analysis needs to be carried out (Oelsnitz, 2000, p. 157). Considering and reconciling both perspectives is necessary to determine the right time to enter markets with an appropriate market exploitation strategy.

### 3.8.3. Implications for market exploitation strategies: a necessary back coupling to corporate strategy

Market exploitation strategies and their timing require back coupling to general corporate strategies (Weiss, 1996, p. 38 et seq.). General corporate strategies display the strategic path corporations aim to pursue in order to reach the strategic goals that are generally proclaimed within the strategy. Strategic fields, which receive particular attention when a corporation attempts to achieve its strategic goals, are identified. These strategic fields are generally equipped with sufficient resources to adequately work on strategic topics. To internationalize successfully, back coupling of the internationalization strategy to the corporate strategy is thus of major importance. A corporation must be willing to internationalize. At best, internationalization should be a strategic goal of the corporate strategy adopted by the executive board. Only then will the required financial and personnel resources be made available, which is decisive for the success of an internationalization strategy. If corporations do not prioritize internationalization and do not equip relevant business units with sufficient resources, adequately carrying out a successful internationalization strategy is impossible.

The appropriate placement of resources determines the value they add to a corporation and demonstrates a corporation's ability to exploit its competitive advantages to the maximum. Effective coordination and successful collaboration of resources, which improve through repetition and learning processes, are of particular importance (Weiss, 1996, p. 39 et seq.). Adequately equipped business units that sustainably promote the internationalization strategy within a corporation are thus imperative to ensure a successful internationalization process.

### **3.9. Success factor research**

The previous sections have demonstrated that various diverse influencing factors explain internationalization processes of corporations. To develop a conceptual model that effectively supports corporations to identify markets that require local production activities to be exploited effectively, attention must be paid when drafting a decision-making process model to keep it within manageable bounds to ensure practical applicability. Focusing on the most decisive influencing factors that determine the respective process steps is thus fundamental. Since the 1960s, a field of research analyzing the effects of success factors has evolved. It claims that only a limited set of influencing factors determine the success of an operation. Literature treats the terms success factors and influencing factors as synonyms. It differentiates success factors into general success factors, which determine the general success of an operation, and decision-specific success factors, which determine the success of specific decision complexes such as the internationalization process of corporations. The consideration of success can thus be seen as either the overall success of a corporation or the success of a decision such as promoting internationalization. Success is, in this field of research, hence seen as a variable dependent on independent variables, which are influencing factors. These influencing factors can be either positive factors, which to an increasing extent positively impact the level of success, or negative factors, which to an increasing extent negatively impact the level of success (Röderstein, 2009, p. 33 et seq.).

To operationalize scientific findings, the most relevant success factors out of the many influencing factors that determine the success of corporations or specific decision complexes must be determined. It is necessary to reduce complexity by identifying only a limited set of influencing factors since this enables corporations to focus their analysis and decision-making processes on the most relevant factors, ensuring practical applicability. Unsurprisingly, the concept of strategic or critical success factors, which claims that a limited set of factors determines success, has gained increasing relevance. It is no longer regarded as necessary to

consider all relevant influencing factors, which restricts practical applicability, with the focus on identifying a limited set of significant influencing factors (Röderstein, 2009, p. 36).

Different classifications of both forms of influencing factors, general success factors and decision-specific success factors, have been developed. Most commonly influencing factors are distinguished as internal factors that are influenced by the corporation itself or external factors that are influenced by external stimuli.

Also in the context of internationalization and market exploitation strategies, internal and external success factors have been identified to define the process of internationalization. The following provides a brief overview of influencing factors that correspond to the theoretical concepts previously examined in this chapter. A concrete operationalization follows in Chapter 5.

The motivation for corporations to internationalize is one internal factor that has been identified to influence the internationalization process of corporations. Declaring internationalization as a strategic objective within a corporate strategy, for instance, remarkably increases its significance. Therefore, commitment by either the entire corporation or personal commitment of relevant decision-makers is an important internal success factor (see Gann, 1996, p. 21; Sternad et al., 2013, p. 2). A corporation's aim to control their business activities abroad is another internal factor that influences internationalization strategies, particularly market exploitation strategies. Exporting via distributors, for example, provides a low level of control whereas being present in the market by setting up local production facilities provides a high level of control (see Ulrich, Hollensen & Boyd, 2014, p. 425). Product complexity is a further internal factor that decisively influences the process of internationalization since the complexity of a corporation's products as well its production processes and related concepts, such as logistics and procurement concepts, significantly impacts a corporation's ability to internationalize (see Lymbersky, 2008, p. 51; Ulrich et al., 2014, p. 425). Another internal factor that influences the internationalization process of corporations is related to the level of experience corporations have gathered regarding internationalizing their business activities (see Helm, 1997, p. 85 et seq.; Morschett et al., 2008, p. 529). This factor can be classified as a positive influencing factor since it has been shown that firms that have previously implemented international business activities more easily promote prospective market development processes. One of the most relevant internal influencing factors is the level of financial as well as personnel resources. Available financial resources and the availability of qualified personnel determine to what extent internationalization can be realized and thereby significantly influence the process of

internationalization (see Ulrich et al., 2014, p. 428). These internal success factors, which can be influenced by the corporation itself, can also be associated with the resource-based view. However, success factor research has also proposed the necessity to consider the market-based view by incorporating external influencing factors. Within the process of internationalization, these external factors incorporate market-specific characteristics of the target market. External factors can be further classified following a Political, Economic, Social and Technological, or PEST, analysis. PEST can be seen as a framework of macro-environmental factors used for environmental screening (Sternad et al., 2013, p. 30). Political factors such as the political environment and governmental policies are relevant influencing factors within the process of internationalization. The political environment of the target market represents a substantial external success factor since it significantly affects the implementation of business activities (see Lymbersky, 2008, p. 50; Perlitz & Seger, 2000, p. 90). Whereas stable political environments reassure corporations making investments in foreign markets, volatile political environments discourage these investments. The level and elaboration of market barriers that foreign countries have established represent a second external political factor that influences the internationalization process of corporations (see Buckley & Casson, 1998, p. 555; Lymbersky, 2008, p. 54). Such barriers impair access to international markets and thus impede foreign corporations from exploiting the potential offered by international markets. Accordingly, to circumvent these barriers, corporations are incentivized to adapt their market strategies from, for instance, an export towards a FDI strategy. Hence, market barriers are a significant external influencing factor within the process of internationalization encouraging corporations to promote their market exploitation process. A country's economic situation and growth potential, which enhances its attractiveness, is a further external economic success factor that has a significant impact on the process of internationalization (see Dehnen, 2012, p. 106; Kramer & Benz, 2004, p. 2). The size as well as the growth potential of international markets thereby considerably influences whether corporations consider intensifying their market-specific activities. Social influencing factors that determine the process of internationalization are, for example, population growth rates and lifestyle changes, which can be markedly observed in countries with emerging economies (see Sternad et al., 2013, p. 30). Especially within the decision-making process in regard to whether to capture emerging markets, such factors are highly significant. The structure of markets and industry branches is an external technological success factor that influences the internationalization process of corporations (see Schonert, 2008, p. 17 et seq.; Winkler, Kuklinski & Moser, 2015, p. 1119). This is particularly relevant

when the internationalization process of firms has the objective of intensifying production activities abroad. Infrastructural aspects and the prevailing technological level regarding business partners and suppliers are thus seen as relevant positive success factors within the process of internationalization. The competitive situation on international markets is another factor that while is not assignable within the PEST categorization, represents an important external success factor that influences the internationalization process. The level of competition significantly impacts the decision-making and market development process of corporations. This can be traced to the fact that competitors that are intensifying their commitment in international markets may jeopardize a corporation's competitive situation. Therefore, the competitive situation is a highly significant influencing factor within the internationalization process (see Gann, 1996, p. 27; Lymbersky, 2008, p. 50). These external success factors, which are associated with the market-based view, originate from external stimuli. While they cannot be influenced by corporations, they do require an adequate reaction.

By integrating these two dimensions within the internationalization process, namely internal and external factors and thus the resource-based and market-based views, respectively, analysis of the corporation and the environment can be carried out simultaneously.

Within the field of success factor research, numerous authors have continuously added supplementary influencing factors. This also applies to the context of internationalization. Here, one additional factor requires attention. Lymbersky (2008, p. 51 et seq.) underlined the relevance of integrating a cost analysis that considers costs to set up business activities abroad, such as production, logistic, and labor costs, within the process of internationalization. This cost perspective represents a relevant influencing factor within a corporation's process of internationalization. Although internal success factors such as product complexity and resource availability touch upon cost aspects, it is equally important to explicitly introduce influencing factors' costs.

### *Critique*

Many scholars have intensively criticized the research field of success factors. One devastating remark, which has been prominently cited many times, describes the field of research as a "bunte Mischung von oberflächlicher Geschichtenerzählerei, Folklore, Rezeptverkauf, Jagen und Sammeln sowie einigen wenigen Bemühungen um

ernstzunehmende eigenständige Forschung...”<sup>1</sup> (Fritz, 1989, p. 15). Other authors even postulate that this field of research has failed (Nicolai & Kieser, 2002). Nonetheless, success factor research has been addressed in a large number of publications. It should be noted that many of these are popular science publications that often do not meet scientific standards. Diller and Lücking (1993) attempted to analyze why publications within this field of research nonetheless meet with a particularly positive response from the management of international corporations. They argued that managers need to make decisions within a limited amount of time, with limited resources, and without having all relevant information available. Since success factor research reduces the complexity of causal relations in corporate realities, it allows managers to consider only selected relevant influencing factors as decision criteria (Röderstein, 2009, p. 42 et seq.).

In terms of content, a major strand of criticism is methodological criticism, since accusations have been made that many studies do not include statistical proof of validity. Another main strand of criticism is the missing theoretical approach (Röderstein, 2009, p. 43). Haencke (2002) attempted to analyze the strands of criticism to develop a recommendation of how to draft future success factor studies that meet scientific standards. He concluded that quantitative studies within the field of success factor research take a valid, scientific approach. Moreover, he accentuated that success factor studies should be theory-based. Success factors should thus not be deduced using an explorative approach. Instead, factors should be derived from theoretical concepts and tested based on hypotheses. Finally, Haencke proposed focusing the investigation of influencing factors on a specific branch and a specific field of action. Prospective publications in the field of success factor research should thus consider issued criticism and strive for a scientifically sound approach (Röderstein, 2009, p. 44).

With the objective of adequately responding to lines of critique and considering the above-mentioned recommendation to carry out a scientifically recognized study within the field of success factor research, this research aims first to focus explicitly on the decision-making process of corporations’ internationalization and market exploitation strategies. Second, the recommendation to pursue a theory-based approach is also taken into consideration. Chapter 3 elaborated in detail on theoretical concepts within the field of internationalization. For the development of the conceptual model, which is established in Chapter 5, influencing factors and the sequence of the various phases of the decision-making process model of corporations’

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<sup>1</sup> English translation: colorful mixture of superficial story telling, folklore, selling recipes, hunting and gathering as well as a few efforts to undertake serious and independent research.

internationalization and market exploitation strategies are deduced from these theoretical concepts. The process model that is established aims to provide analytical support for corporations to identify markets with potential for more effective exploitation with the establishment of local production activities. Subsequently, the conceptual model is empirically verified by undertaking a quantitative study (Röderstein, 2009, p. 46). Structural equation modeling is used in this research and empowers the researcher to assess a complex model with various indicators and relationships (Nitzl, 2012, p. 88).

### **3.10. The decision-making process of corporations' internationalization strategies**

The aim is to develop a decision-making process model that supports corporations to implement their internationalization and market exploitation strategies. A conceptual model related to this is thus developed in Chapter 5. Relevant influencing factors that corporations should incorporate in their decision-making process within the context of internationalization are derived from existing theoretical concepts and findings of empirical research, which were previously analyzed in detail in Chapter 3. These influencing factors must also be reasonably associated with the respective phases in which a corporation's decision-making process is structured.

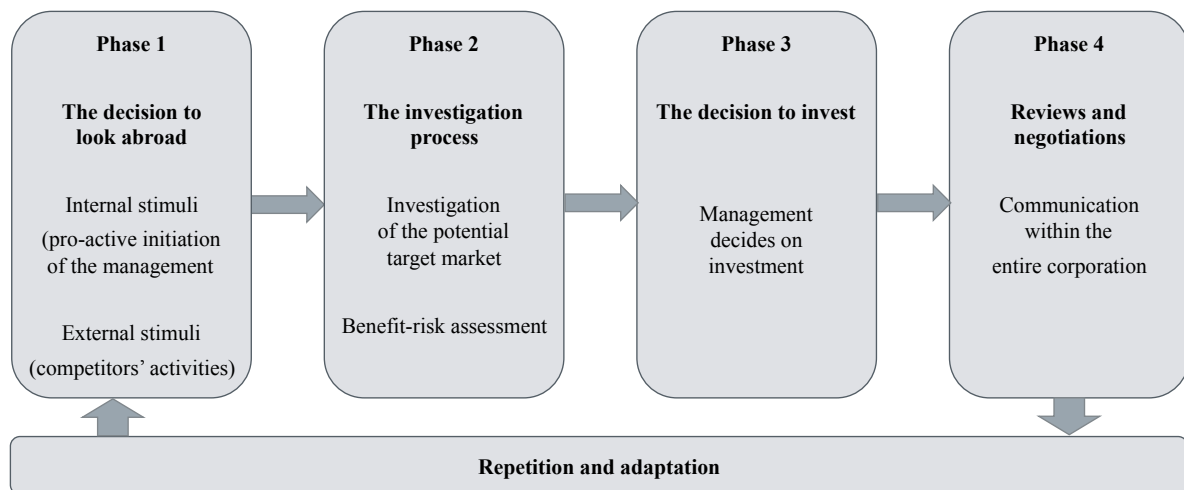
Process and phase models of how corporations' decision-making processes should be structured in the context of internationalization have been developed, most prominently by scholars such as Aharoni (1966, 1999), Gann (1996), and Sternad et al. (2013). These concepts are discussed in this sub-chapter. The process models provide valuable indications for setting up the decision-making process, the conceptual model, which is done in Chapter 5.

Aharoni (1966, 1999) was one of the first scholars to describe the decision-making procedure firms go through during the process of internationalization. Aharoni followed a behavioral oriented approach since he assumes that decisions are not always made based on rational arguments and detailed information about a situation and instead that social structures and implications determine the process to a significant extent.

Aharoni defined the decision-making process for a firm's internationalization as consisting of four phases: In the first phase, which Aharoni called 'the decision to look abroad', a company decides to consider international business activities. In the second stage, which is called 'the investigation process', a company analyzes market-specific market exploitation strategies. In the third step, which is called 'the decision to invest', a company finally makes a decision

about its future international business activities. Finally, in the last stage, which Aharoni called ‘reviews and negotiations’, internal coordination and negotiations take place (see figure 9) (Aharoni, 1999; Sternad et al., 2013, p. 19 et seq.).

*Figure 9: Aharoni’s decision-making process model of corporations’ internationalization strategies*



Source: Own figure; content based on Aharoni, 1966, p. 49 et. seq. and graphics based on Sternad et al., 2013, p. 21.

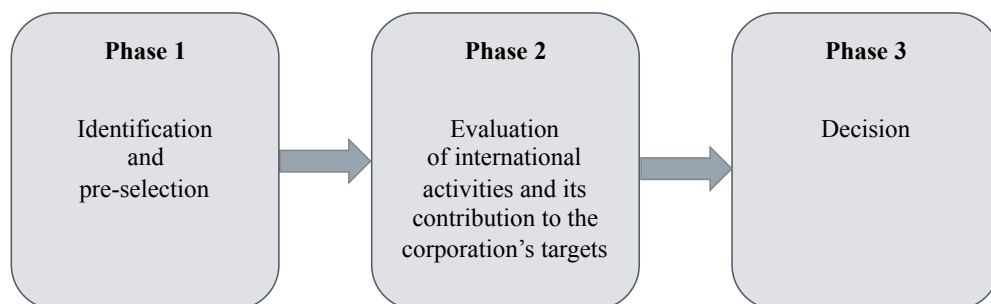
In the following, Aharoni’s four phases are outlined in more detail. Aharoni argued that it is usually the management level that initially deals with international market potential. He stated that the reasons why managers initiate the investigation process can often be traced back to personal relationships with the potential target market. However, he also claimed that within the first phase, it is not only internal stimuli that initiate a debate about internationalization, such as personal decisions of managers wishing to investigate international markets’ potential, but also external stimuli. The internationalization of competitors, for instance, represents such an external stimulus. If, after this first phase, management can generally imagine carrying out international business activities, a detailed investigation process of potential target markets is initiated. Within the second stage, a comprehensive risk-benefit assessment is correspondingly proposed to evaluate whether capturing new markets will be profitable. After a detailed analysis, in the third step, top management decides whether the company wants to internationalize. During the final phase, the decision made must be comprehensively communicated with the entire corporation. Subsequently, internal coordination rounds among different business units take place (Sternad et al., 2013, p. 19 et seq.). Aharoni further underlined that this four-stage process should be understood as iterative



with mutually interwoven stages (see figure 9). With this approach, Aharoni attempted to disclose how decisions about internationalization are made within corporations (Sternad et al., 2013, p. 19 et seq.).

Based on Aharoni, Gann (1996) further developed the decision-making process of corporations' internationalization strategies with the objective of enhancing its practical applicability by differentiating Aharoni's second phase, the investigation process. Gann thus suggested that three relevant process steps characterize the decision-making process. In the first step, corporations identify potential markets where an adaptation of the corporation's market access strategy would increase revenues. However, not all markets that show potential can be analyzed so the most promising potential markets have to be pre-selected. For the second stage, Gann suggested that a detailed analysis must be carried out to examine the impacts adaptation of the market exploitation strategy in the selected markets would evoke. Finally, in the third process step, a decision is made about whether to adapt the respective market exploitation strategy to exploit markets more effectively (see figure 10) (Gann, 1996, p. 27 et seq.).

*Figure 10: Gann's decision-making process model of corporations' internationalization strategies*



Source: Own figure based on Gann, 1996, p.29.

In the following, the different phases are elaborated in more detail. Gann termed phase one the identification and pre-selection phase. He stated that identifying international markets that have potential if market exploitation strategies were promoted or adapted can be carried out in four ways: It can be either active and based on a methodological approach or active and not based on a methodological approach, for instance, visiting trade fairs. It can also be either passive and based on a methodological approach, for example, via a company's suggestion scheme, or passive and not based on a methodological approach. Gann suggested that after

identifying markets with potential to be exploited more effectively when market exploitation strategies are adapted, a detailed analysis should be carried out, which he indicates is time and resource intensive. Therefore, pre-selection must be done. This pre-selection should disclose whether an expansion and corresponding adaptation of market exploitation strategies in the identified markets is feasible and promising and whether the adapted international activities would contribute to the company's goals (Gann, 1996, p. 29 et seq.). For phase two, Gann proposed that companies should undertake a detailed analysis that leads to the identification of performance indicators. In this phase, a detailed analysis is carried out to evaluate whether an adaptation of the market exploitation strategy in particular markets would support achieving the corporation's targets, which generally implies a simultaneous increase of the corporation's value (Gann, 1996, p. 37 et seq.). For phase three, Gann stated that a decision must be made. However, he emphasized that this can only be soundly realized after a detailed analysis resulting in clear financial indicators has been carried out so that management can decide whether to further intensify international activities in selected markets (see figure 10) (Gann, 1996, p. 39).

These approaches introduced sound decision-making process models in the research on internationalization and market exploitation strategies.

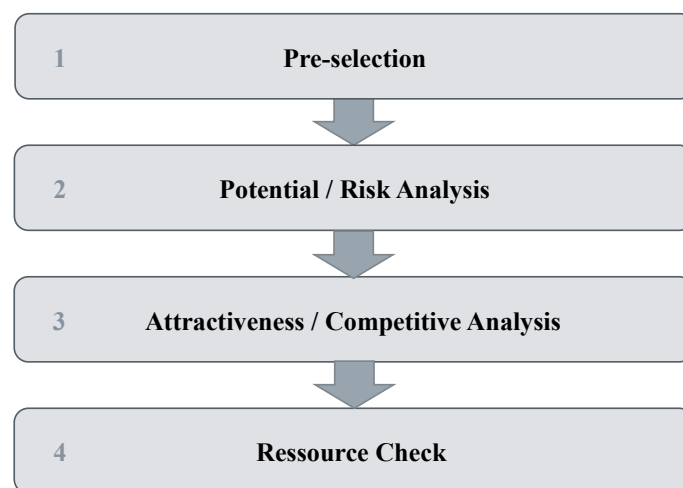
Particularly within the last decade, scholars have repeatedly underlined the necessity of achieving practical applicability within the field of internationalization process research to generate added value for the real economy. This can primarily be traced to the fact that previously developed approaches are hardly applicable to today's business realities and thus lack practicability (Dehnen, 2012, p. 2).

Scholars such as Meyer (2006), who recently developed an internationalization process model, have lately responded to these claims and thus particularly aim to achieve practical applicability. For instance, Meyer designed a multiple-stage model to support corporations in identifying markets where production facilities should be implemented. In his conception, however, motives for promoting internationalization activities are highly diverse and range from market exploitation to production cost advantages and the hedging of currency risk (Meyer, 2006, p. 267 et seq.; Schonert, 2008). Meyer thus developed a general internationalization approach. It is argued, however, that this approach needs to be specified further to explicitly support corporations within the process of internationalization.

Scholars such as Sternad et al. (2013) have attempted to model an internationalization process with practical applicability, which specifically supports corporations aiming to exploit

international markets more effectively. Sternad et al. developed a four-stage phase model. The first phase is similar to Gann's approach, with a pre-selection of potential markets proposed. In the second stage, potential and risk of the pre-selected countries are compared to draft an attractiveness ranking of the most promising target markets. In the third step, the attractiveness of the potential markets is set in relation to the competitive situation in the selected target markets. The aim is to prioritize the potential target markets. In the last step, undertaking a resource check to evaluate whether a corporation has sufficient resources at its disposal to implement a successful market development process is suggested (see figure 11).

*Figure 11: Sternad et al.'s decision-making process model of corporations' internationalization strategies*



Source: Own figure based on Sternad et al., 2013, p.44.

Sternad et al. further specified every process step in detail. They further suggested indicators and methods to objectively evaluate potential markets within the phases of the internationalization process model (Sternad et al., 2013, p. 41 et seq.).

The approaches of Meyer and Sternad et al. demonstrate that scholars have attempted to develop concepts intended to support corporations during the process of internationalization. In terms of practical applicability, these concepts have contributed to further development of the field of research. Whereas Meyer's concept is quite broad and not explicitly tailored to specific motives, Sternad et al.'s concept is more focused. The first phase of Sternad et al.'s concept, the pre-selection phase, is in accordance with not only Gann's approach but also research conducted in the field and appears to be a reasonable start for an internationalization

process model. In the second and third phases, however, Sternad et al.'s focus is primarily on ranking pre-selected markets to prioritize them. Conversely, country-specific concepts as to how a market can be best exploited containing financial assessments are not considered, and a detailed country-specific analysis is not undertaken. In comparison, Gann's approach, which includes a detailed analysis with financial indicators, appears more reasonable and expedient for these stages. Sternad et al.'s last process step demonstrates shortcomings since the basis of decisions made about whether to promote or adapt international activities is described as predominantly dependent on the availability of required resources. However, a profound analysis, such as the one conducted following Gann's approach, on whether concepts are feasible and positive financial results can be expected when promoting international business activities has not been undertaken and hence is not considered in Sternad et al.'s decision-making process.

One point of critique that applies to the above-mentioned concepts as well as to other approaches in this field of research is the lack of an empirical foundation from which the decision-making processes were established. In terms of scientific standards, this is a major shortcoming. In most cases, this shortcoming cannot be balanced by a theory-based approach. However, the contrary applies since various decision-making process models developed in this field of research have not been deduced from existing theoretical concepts.

It is thus the aim of the present work to develop a decision-making process model for corporations wishing to internationalize and exploit the potential offered by international markets. More specifically, a decision-making process model is drafted to support corporations to identify markets that require local production activities for effective exploitation. Thereby, the work aims to satisfy scientific standards. The developed decision-making process model is also based on already existent theoretical concepts and is informed by previous research. Moreover, the drafted process model is empirically verified.

Furthermore, the aim is to develop a decision-making process model for corporations' internationalization and market exploitation strategies that effectively supports corporations during the process of internationalization. The developed decision-making process model is hence meant to demonstrate that the process to identify markets that require local production activities to be exploited effectively can be carried out systematically and within manageable bounds so that its practical applicability is ensured.

### *Approach to deducing a process model*

In the following, hypotheses are deduced based on theoretical concepts and empirical studies, which were outlined previously to develop an initial approach to structuring the decision-making process of corporations' internationalization and market exploitation strategies in a reasonable manner. A more profound conceptualization as well as operationalization of the process model is undertaken in Chapter 5.

Based on Aharoni's (1966) approach, consensus was reached within the field of research that internationalization of corporations can be implemented only if a corporation's management strives to internationalize business activities. However, it is argued that 'the decision to look abroad', as Aharoni called it, should not be seen as the first phase of internationalization. It can instead be seen as characterizing a company's intention. The willingness to internationalize, 'to look abroad', should reasonably be seen as a necessary precondition. In agreement with Gann (1996) and Sternad et al. (2013), the first step of the internationalization and market exploitation process should instead focus on identifying potential markets. A 'global screening' is thus proposed to identify markets that demonstrate the potential to be exploited more adequately if local production facilities were established. It is hence suggested that a screening and identification phase ought to comprise the first step of the decision-making process of corporations' internationalization and market exploitation strategies. Relevant influencing factors, which should determine this first process phase, are conceptualized in Chapter 5.1.1. These influencing factors were deduced from existing theoretical concepts and empirical studies that were previously conducted in this field of research. To assess the conceptual model's relevance and practical applicability, an empirical investigation was conducted. Accordingly, Chapter 5.1.2 operationalizes the first phase.

In their phase models, Aharoni (1966, 1999) and Gann (1996) demonstrated that an 'investigation process', where a 'detailed analysis' is undertaken, should follow the pre-selection of potential markets. It is agreed upon by many scholars that after a first assessment of potential, a more profound analysis should follow. However, carrying out a detailed analysis of every detected potential market could be very resource- and time-intensive and it is thus not practical for everyday business. Accordingly, adjusting the existing process models is suggested. The proposition is to divide the investigation process in which the detailed analysis is performed into two stages. Within the first part, a country analysis is proposed, which should consider relevant market-specific factors. Reflecting upon external factors in

detail by performing an environmental analysis and thus taking a market-based view has yet been suggested within the literature, which was disclosed in Chapter 3, more precisely in Chapter 3.7 (see for example Helm, 1997; Perlitz & Seger, 2000; Ulrich et al., 2014).

It is thus advocated that countries identified as potential markets during the first process step, the screening and identification phase, ought to be further analyzed in a second process step. In this second phase of the decision-making process of corporations' internationalization and market exploitation strategies, a country analysis is suggested. This leads to the following hypothesis.

*Hypothesis 1: Countries identified during the first phase, the screening and identification phase, of the decision-making process of corporations' internationalization and market exploitation strategies as markets with the potential to be exploited more adequately when local production facilities are in place require further analysis in a second process phase, the country analysis.*

Although the literature suggests carrying out an 'investigation process', or a 'detailed analysis', within a second process step, it has been argued that dividing this process into two steps is more reasonable. The above-mentioned suggestion of carrying out a country analysis in the second step of the market exploitation process is meant to provide a holistic overview of market-specific framework conditions. This environmental analysis is aimed at assessing whether an identified potential market has the necessary framework conditions for more adequate exploitation by setting up local production facilities. Relevant external influencing factors, which require consideration within this process phase, are conceptualized and theoretically and empirically deduced in Chapter 5.2.1. Moreover, the operationalization of this process step is detailed in Chapter 5.2.2.

A third analytical step is suggested if, after the country analysis has been conducted, a target market still demonstrates potential for more effective exploitation with the implementation of local production activities. This third process step proposes to assess internal, firm-specific aspects. A feasibility study is suggested to determine whether it is conceptually and economically feasible to implement local production activities in specific target markets.

It is thus proposed that countries still classified as markets that demonstrate potential for more adequate exploitation if local production activities are implemented after the second process step require detailed analysis in a third process step. This leads to the following hypothesis.

*Hypothesis 2: Countries that show potential in the second phase, the country analysis, to be exploited more effectively when local production activities are implemented require further analysis in the third phase of the decision-making process of corporations' internationalization and market exploitation strategies, the feasibility study.*

The following proposes that a feasibility study should be conducted in the third process phase of the decision-making process of corporations' internationalization and market exploitation strategies, where internal, firm-specific factors are primarily the object of investigation. Academics such as Porter have previously accentuated the importance of considering firm-specific factors. Correspondingly, a feasibility study is thus projected to be focused mainly on evaluating whether a corporation's competences, concepts, processes, and resources empower it to implement economically feasible production activities abroad (Porter, 1991). This is in accordance with scholars such as Gann (1996), who claimed that a profound analysis is imperative to outline whether concepts are procedurally and economically feasible. Relevant influencing factors that ought to be considered within a feasibility study are conceptualized and theoretically and empirically deduced in Chapter 5.3, where insights about the operationalization of this process phase are also provided.

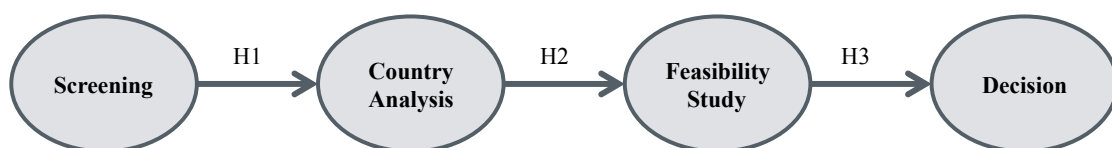
Hence, undertaking a feasibility study in the third phase of the decision-making process of corporations' internationalization and market exploitation strategies is suggested. The result of the feasibility study, which is proposed to include a conceptual as well as a financial assessment of local production activities in a specific target market, is propositioned to be presented to a corporation's executive board, where a final decision about the realization of production activities abroad will be made. This leads to the following hypothesis.

*Hypothesis 3: Countries, which after the completion of the third phase, the feasibility study, demonstrate potential to be exploited more adequately by implementing feasible local production activities, should be assessed in the fourth and final phase of the decision-making process of corporations' internationalization and market exploitation strategies, the decision stage.*

Finally, the executive board has to reach a final decision about the implementation of sales-driven production activities abroad. Chapter 5.4 explicitly elaborates upon this last process step. The executive board's final decision is proposed to mark the end of the decision-making process of corporations' internationalization and market exploitation strategies. It finalizes the investigation phase, which analyzes whether specific international markets can be exploited more effectively when local production activities are implemented. The decision phase is thus proposed to be the fourth and final stage of the decision-making process of corporations' internationalization and market exploitation strategies.

An appropriate suggestion is structuring the decision-making process of corporations' internationalization and market exploitation strategies in four consecutive phases. This is proposed to begin with a screening and identification phase to identify markets that demonstrate the potential to be more adequately exploited if local production facilities were in place. If such markets are identified, it is propositioned that a second step should include a country analysis. Local framework conditions ought to be evaluated so as to determine whether local production activities in specific target markets can be implemented to enable corporations to exploit these markets more adequately. If after this second process phase target markets still demonstrate the potential to be exploited more effectively when local production activities would be in place, a third process step, a feasibility study, is suggested. A detailed conceptual and financial assessment is proposed to evaluate whether corporations can feasibly implement production activities abroad to exploit international markets effectively. Finally, in the last process step, it is propositioned that a final decision about the implementation of sales-driven production activities abroad must be made by a corporations' board of directors (see figure 12).

*Figure 12: Structure of the decision-making process model of corporations' internationalization and market exploitation strategies*



Source: Own figure.



In Chapter 5, the decision-making process model for corporations' internationalization and market exploitation strategies is established in more detail. The conceptual model containing consecutive process steps is discussed more profoundly. Relevant influencing factors, which determine the respective process phases, are assigned by deducing them from theoretical concepts and previous empirical findings. Finally, an empirical investigation is conducted to assess the developed decision-making process model. The empirical analysis demonstrates whether the developed sequence of the process steps is effective and whether influencing factors have been assigned reasonably. The empirical evaluation thus examines the model's relevance and practical applicability.

## **4. Methodological fundamentals**

Before the conceptual model is outlined in Chapter 5 and empirically evaluated in Chapter 6, Chapter 4 elaborates on the methodological fundamentals on which the evaluation of the empirical investigation is based.

### **4.1. Fundamentals of causal analysis**

Originally, research relied on univariate and bivariate analysis to examine data and relationships. Within current fields of research, however, it is essential to employ more sophisticated methods, namely multivariate analysis methods, to understand more complex interrelations. By applying multivariate methods, multiple variables can be statistically analyzed simultaneously. Statistical methods often applied by researchers are first-generation techniques such as approaches based on regressions or factor and cluster analysis. Within the last two decades, however, researchers have applied second-generation techniques more often to overcome weaknesses of first-generation techniques. Those second-generation methods are referred to as structural equation modeling (SEM). SEM enables researchers to assess unobservable variables by measuring them indirectly based on indicator variables (Hair et al., 2014, pp. 2-3). It is a multivariate analysis method that combines features of factor analysis and regression. The application of this method thus empowers researchers to assess relationships between measured variables and latent variables, which are variables that cannot be measured directly. SEM also empowers researchers to assess relationships among latent variables (Hair et al., 2014, p. xi). This approach thus permits researchers to examine whether

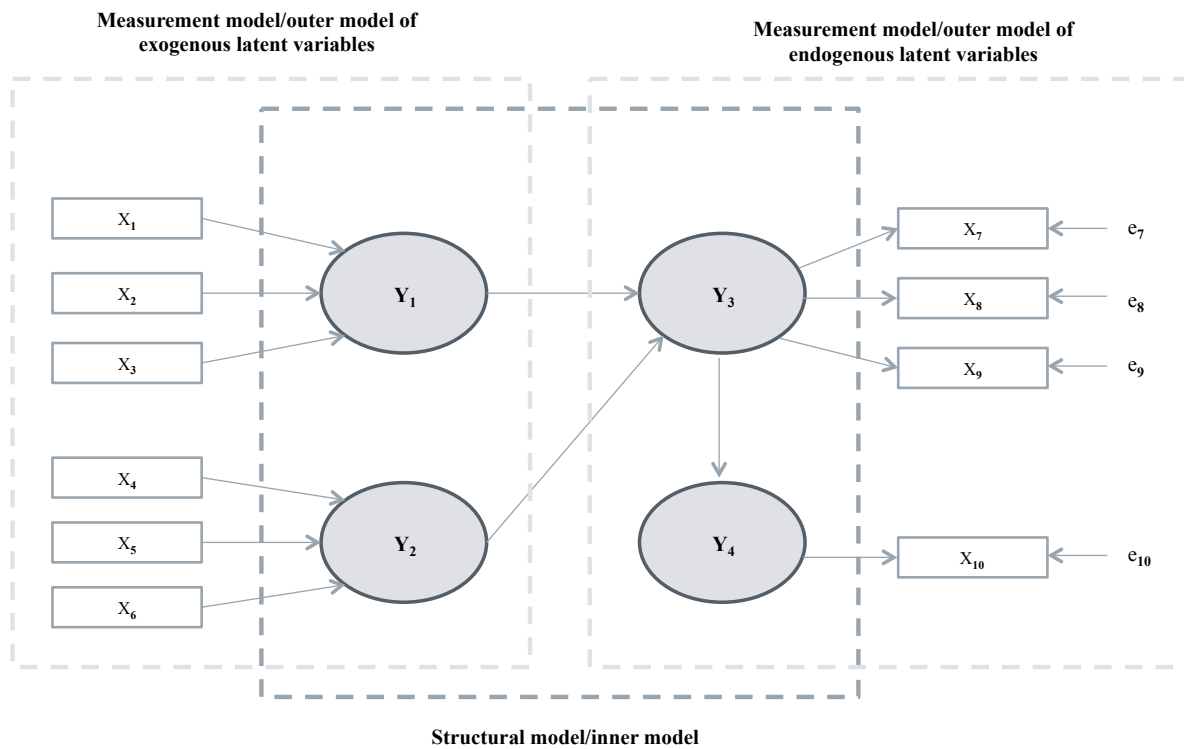
a theoretically developed system of hypotheses corresponds with empirical data (see Diamantopoulos & Siguaw, 2000, p. 4).

#### **4.2. The structure of a causal model**

In the SEM method, path models are developed as schemas, which exhibit hypotheses and relationships that are investigated (see figure 13). Structural equation models contain constructs, which are variables that cannot be measured directly. These constructs are represented as ovals in path models ( $Y_1$ - $Y_4$ ). Indicators, also termed items, can be directly recorded and are thus the proxy variables that comprise the raw data. Those indicators are represented as rectangles in path models ( $x_1$ - $x_{10}$ ). Relationships between indicators and constructs and among constructs are symbolized as single-headed arrows, which represent directional, predictive, and even casual relationships in the case of theoretical support.

A path model consists of two levels, an inner level called the structural or inner model and an outer level called the measurement or outer model. The structural model reveals the constructs, which are also termed latent variables, and the relationships among them. The measurement model demonstrates the relationship among the constructs and indicators. Error terms are linked by single-headed arrows to constructs or reflectively obtained variables, which are variables where the construct determines the measurement of the indicator variable ( $e_7$ - $e_{10}$ ). Path models are designed from left to right. Variables on the left are independent variables that predict dependent variables on the right. When constructs, and thus latent variables, are purely independent variables that are not explained by the model itself, they are also termed exogenous latent variables. Latent variables that are dependent variables, since they are explained by other variables, or independent and dependent variables are termed endogenous variables (Hair et al., 2014, pp. 11-14).

Figure 13: A Path Model



Source: Own figure based on Hair et al., 2014, p.11.

Measurement models can be either formative or reflective. The causal relation of latent variables to their manifest variables determines whether a measurement model is reflective or formative. In a reflective measurement model, causality flows from the latent variable to its indicators, so the construct represents a trait explaining the indicators, which represent consequences of the construct. Indicators are highly correlated and interchangeable. In a formative measurement model, indicators cause the construct and thus determine its meaning. Each indicator represents a specific facet of the construct so they are not interchangeable. Taken jointly, the items determine the meaning of the construct, so the items demonstrate the key drivers of the latent variable. Since there is no common cause of the items, they do not need to be correlated (Hair et al., 2014, p. 42 et seq.).

The equation to estimate formative measurement models is constituted as follows (Nitzl, 2012, p. 63):

$$\xi_i = \sum_h \pi_{ih} \cdot x_{ih} + \vartheta_i$$

The equation demonstrates the analytical regression approach used to measure formative outer models. The regression coefficients  $\pi_{ih}$  are termed outer weights. The latent variable is thus calculated by the linear combination of its indicators' outer weights whereas the indicators represent different components of the constructs (Barclay, Thompson & Higgins, 1995, p. 286 et seq.; Rossiter, 2002, p. 314). The different formative indicators commonly influence the construct with different weights (Christophersen & Grape, 2007, p. 106). Formative measurement models thus empower researchers to detect the relevance of different drivers based on the indicators' weights (see Diller, 2006, p. 614).

#### **4.3. Model estimation: comparison of two diverse approaches**

SEM can be employed in many applications. The most often employed method is covariance-based SEM (CB-SEM), which is primarily conducted with widely used software tools such as LISREL and AMOS. The predominance of this kind of analysis, however, has caused researchers to overlook an alternative SEM technique, a variance-based partial least squares SEM (PLS-SEM) approach that has become an essential research method.

Whereas CB-SEM is primarily used to confirm existing theories, PLS-SEM is predominantly applied to develop complex theories and models in an explorative stage. It is thus an appropriate method for this rather explorative research, which aims to develop a decision-making process model for corporations' internationalization and market exploitation strategies. PLS-SEM can better handle complex exploratory situations because it uses composites to characterize theoretical constructs as proxies and employs a gradual approach to parameter estimation (Nitzl, 2016; Rigdon, 2013). PLS-SEM estimates coefficients with an ordinary least squares (OLS) regression-based method whereas CB-SEM estimates coefficients with the maximum likelihood (ML) method. In PLS-SEM, available data is applied to estimate a model's path relationships to mitigate the endogenous constructs' error terms. The algorithm thus does not simultaneously calculate the structural model's relationships. It relies upon block variables that are deduced as weighted composites of their associated observed variables. The estimation approach comprises an iterative sequence of PLS regressions. OLS regressions are applied to assess the partial regression relationships of the structural model (Hair et al., 2014, p. 14 et seq.). First, an outside approximation is undertaken, where latent variables are approximated by a linear combination of their

indicators. For formative indicators, a set of weights is defined in a similar way as regression analysis. Subsequently, an inside approximation is undertaken. Alternative case values are defined as weighted means of the block variables, which are contiguous within the inner model. By applying these new case values, the original weights are revised, and the process of outside and inside approximation restarts and continues until case values converge (Reinartz, Haenlein & Henseler, 2009, p. 335). PLS-SEM can thus assess complex exploratory models with various indicators and model relationships very well. Hence, it is appropriate to apply this method within the present explorative research, which has the objective of developing a complex decision-making process model that considers diverse influencing factors.

It is the aim of this research to identify key drivers that determine corporations' internationalization and market exploitation strategies. PLS-SEM estimates coefficients that maximize the predictive accuracy of endogenous constructs (Hair et al., 2014, p. 14). This can be explained by the fact that PLS-SEM maximizes the explained variance in dependent variables based on a specific set of hypothesized relationships in a model (Hair, Hult, Ringle & Sarstedt, 2016). PLS-SEM is hence highly efficient for parameter estimation, and the method has great statistical power to predict key target constructs and detect key driver constructs (Hair et al., 2014, pp. xii, 4, 15, 19). This approach substantiates the use of PLS-SEM for prediction and makes it particularly valuable for research that aims to identify key drivers within complex process models, particularly in combination with formative measurements (Albers, 2010; Hair, Ringle & Sarstedt, 2011). Since this is the objective of this research, PLS-SEM is an appropriate method to employ.

Accordingly, PLS-SEM is the preferred method when the objective is to develop theory and predict constructs (Hair et al., 2014, p. 14). This research aims to conceptualize a decision-making process and identify relevant influencing factors for corporations' internationalization and market exploitation strategies. For this rather exploratory approach, PLS-SEM is thus an adequate method to apply.

In the present study, formative measurement models play an important role because formative indicators characterize the different phases of the decision-making process model and thus the different constructs. Another difference between CB-SEM and PLS-SEM is the application of formative measurement models. Although formative indicators can generally be applied for both methods, certain requirements have to be fulfilled when using CB-SEM (Chin &

Newsted, 1999, p. 310 et seq.). PLS-SEM, on the other hand, can model formative indicators without considerable restrictions (Weiber & Mühlhaus, 2010, p. 67). Formative measurements demonstrate high practical relevance, particularly for management research (Bisbe, Batista-Foguet & Chenhall, 2007). Since formative indicators reflect diverse dimensions of the respective constructs, the indicators' weights, which can be interpreted as the beta coefficient in a regression analysis, enable researchers to identify key drivers and examine their importance (Albers, 2010; Hulland, 1999). Since formative measurement models characterize this study the application of PLS-SEM is reasonable.

Another aspect that should be considered when deciding whether to apply CB-SEM or PLS-SEM is sample size. CB-SEM requires a larger sample size than PLS-SEM. A sample size requirement has been developed for PLS-SEM based on a comprehensive regression equation. The number of parameters, which determines the latent variable with the highest number of parameters, is multiplied by ten. The resulting number represents the minimum required sample size (Barclay et al., 1995; Chin, 1998). This study's sample size of 115 observations exceeds the minimum requirement, which in this context is 70.

Since PLS-SEM applies OLS regressions, the required sample size can be derived more accurately with statistical power analyses for multiple regression models (Cohen, 1992; Nitzl, 2016). Statistical power is the probability of accepting an alternative hypothesis when it is true, so it is thus the capability of a test to discover an effect if an effect truly exists (Faul, Erdfelder, Lang & Buchner, 2007). For business studies, a statistical power of at least 0.80 at a significance level of 0.05 is considered acceptable (Cohen, 1988). Statistical power analyses can be used to generate power tables, such as the one developed by Cohen (1992) or Nitzl (2016), whose contribution was recently published in the *Journal of Accounting Literature*. Cohen's power table demonstrates how sample size depends on the number of predictors, the statistical significance level, and the minimum  $R^2$  values necessary to attain a statistical power of 0.80. Nitzl's power table shows how the sample size depends on the number of predictors, the statistical significance level, and the effect size necessary to achieve a statistical power of 0.80. Both power tables reinforce that the empirical study's sample size of 115 realizes a statistical power of 80% for detecting  $R^2$  values of at least 0.25 with a 1% probability of error and succeeds in detecting medium effects with a 5% probability of error. Studies such as the one from Chin and Newsted (1999) even show that PLS-SEM can achieve interpretable results with a sample size as small as 20 observations (Nitzl, 2016). PLS-SEM can even be applied when the number of observations is less than the number of the model's

variables. Hence, it is frequently utilized when other methods fail due to small sample sizes. This feature further supports the exploratory nature of PLS-SEM (Henseler et al., 2014; Nitzl, 2016). Moreover, Hui and Wold (1982) explicitly examined the performance of PLS-SEM with small sample sizes and found it to achieve satisfying results. Further, Reinartz et al. (2009) carried out a Monte Carlo simulation, which demonstrated that the statistical power of PLS is always more pronounced or at least as pronounced as that of CB-SEM, particularly when sample sizes are small. Reinartz et al. (2009) hence argued that PLS ought to be applied when the sample contains of less than 250 observations, since PLS achieves a higher level of parameter accuracy and thus provides better estimates than CB-SEM (Hair et al., 2014, p. 19; Reinartz et al., 2009). Appropriate statistical power is fundamental, especially when the aim is to identify potentially significant relationships. PLS is therefore a powerful approach for researchers aiming to investigate the statistical power of their estimation method (Reinartz et al., 2009). Since the sample size of the data set used for this study contains 115 observations, PLS-SEM is an appropriate method because “PLS-SEM works efficiently with small sample sizes [...]” (Hair et al., 2014, p. 15).

The arguments that have been put forward indicate that it is reasonable to apply PLS-SEM for the empirical investigation that is part of this research.

#### **4.4. Assessing the model's quality**

The previous sub-chapter illustrated the reasons for using the variance-based PLS-SEM approach, and this sub-chapter demonstrates the steps needed to evaluate the hypothesis-based conceptual model by means of an empirical data set. The evaluation of the conceptual model is carried out with a multi-stage process. First, the outer measurement models are assessed. Based on the assumption that latent variables are reliably measured, the path relations within the structural model are examined in the following. Next, based on the previous steps, a comprehensive evaluation of the entire conceptual model is conducted.

##### **4.4.1. Quality assessment of formative measurement models**

Formative measurement models are evaluated by examining the measurement models' validity. The outer weights of formative measurement models can be interpreted as regression coefficients. In a PLS model, values close to +1 or -1 show a strong relation between an

indicator and its latent variable whereas values close to 0 indicate a weak relation. The higher the value of an indicator's outer weight, the more an indicator contributes to a formative construct's content. Indicators' outer weights thus represent a first indication of the quality of formative measurement models. In a second step, to evaluate an indicator's validity, its statistical significance must be assessed. The statistical significance demonstrates whether the influence of a manifest variable is significantly different to zero. In PLS, the bootstrapping method is used to conduct a statistical significance test of the indicators' outer weights. Empirical t-values can be attained to determine the statistical significance level. For a two-tailed test, t-values equal to or greater than 1.65 indicate a statistical significance level of 10%. A statistical significance level of 0.10 indicates a 10% risk of concluding that a causal relationship exists when there is no causal relationship. T-values equal to or greater than 1.96 indicate a statistical significance level of 5%, and t-values equal to or greater than 2.57 demonstrate a statistical significance level of 1% (Nitzl, 2012, p. 77 et seq.). However, an indicator should not be automatically eliminated if it is not statistically significant. If this is the case, its outer loading should be examined. If this value is above 0.500, the indicator should be interpreted as important and thus retained. Indicators that are not significant and exhibit an outer loading below 0.500 should be interpreted as variables that do not influence the construct in this context (Hair et al., 2014, p. 129).

Formative measurement models also need to be assessed for collinearity issues. High correlations among formative indicators "can prove problematic from a methodological and interpretational standpoint" (Hair et al., 2014, p. 123). Collinearity impedes identification of singular influences of parameters' regression coefficients. To test formative measurement models for collinearity, the variance inflation factor (VIF) is assessed. The minimum VIF value is 1. A VIF value higher than 10 is considered critical since collinearity issues can distort outer weights (Henseler, Ringle & Sinkovics, 2009, p. 302). Other authors such as Hair et al. (2011) classify VIF values above 5 as critical in a PLS analysis.

However, formative indicators should not be eliminated based solely on the statistical methods demonstrated above. This should at all times be based on content-related considerations (Henseler et al., 2009, p. 302).



#### 4.4.2. Quality assessment of the structural model

After assessing a reliable estimation of the outer model, the inner or structural model can be evaluated in a second step (Nitzl, 2012, p. 79).

An essential criterion to assess a structural model is the analysis of the latent variables' coefficients of determination, the  $R^2$  values. The coefficient of determination states the model's predictive accuracy since it indicates the variance of the endogenous construct, which is explained by the exogenous constructs associated with it (Hair et al., 2014, p. 174 et seq.).  $R^2$  values can range from 0 to 1, with higher values indicating higher predictive accuracy. However, how pronounced  $R^2$  values should be cannot be answered in general since the expression of  $R^2$  values depends on the underlying research question (Harhoff & Wagner, 2009, p. 483). Chin (1998, p. 323), for example, indicated  $R^2$  values of 0.67, 0.33, and 0.19 are 'substantial', 'moderate' and 'weak', respectively. However,  $R^2$  values below 0.67 can also be classified as 'substantial', especially in fields of research that are still maturing (Ringle, 2004, p. 19).

The path coefficients estimate the structural model relationships and thus represent the hypothesized relationship among latent variables. Path coefficients have values between -1 and +1; values close to +1 indicate a strong positive relationship, and values close to -1 indicate a strong negative relationship. These values are typically statistically significant. The closer the values get to 0, the weaker the relationship among the constructs. Low values are commonly not statistically significant. By applying the bootstrapping method, empirical t-values can be attained to evaluate the path coefficients' statistical significance. When the empirical t-value exceeds the critical value, the coefficient is statistically significant at a certain error probability (p), the statistical significance level. The critical t-values for a two-tailed test are, as mentioned previously, 1.65 (statistical significance level = 10%;  $p < 0.1$ ), 1.96 (statistical significance level = 5%;  $p < 0.05$ ), and 2.57 (statistical significance level = 1%;  $p < 0.01$ ) (Hair et al., 2014, p. 171).

In addition, the effect size  $f^2$  can be measured. This reveals the impact an exogenous latent variable has on an endogenous latent variable (Chin, 1998, p. 316).  $f^2$  values of 0.02, 0.15, and 0.35 describe whether an exogenous variable has a small, medium, or large effect, respectively, on the endogenous latent variable (see Chin, 1998, p. 317).

A further quality assessment is to evaluate the structural model's predictive relevance. By applying the blindfolding procedure, Stone-Geisser's  $Q^2$  value (Geisser, 1974; Stone, 1974) is attained. A  $Q^2$  value above 0 indicates that the model has predictive relevance for a certain

endogenous construct. A  $Q^2$  value below 0, on the other hand, indicates that a model lacks predictive relevance (Hair et al., 2014, p. 183).

Statistical methods that have been previously applied within the field of research have not been proven as adequate for capturing multi-factorial relationships within the decision-making process of corporations' internationalization and market exploitation strategies. For this reason, a structural equation model is applied for this study, empowering the researcher to assess a complex model with various indicators and relationships. The PLS-SEM method is also employed since it is highly efficient for parameter estimation and is thus a method of great statistical power. Moreover, PLS-SEM was selected since the aim of this study is to predict key target constructs, which, in this case, is phases within the decision-making process of corporations' internationalization and market exploitation strategies as well as key driver constructs and indicators (Nitzl, 2012, p. 88).

## **5. Conceptualization and operationalization of the conceptual model**

This chapter compiles a conceptual model with the aim of mapping a decision-making process for corporations' internationalization and market exploitation strategies. The conceptual model aims to support corporations during the process of internationalization to identify markets that demonstrate potential to be exploited more effectively if local production activities are put in place.

### **5.1. Phase one: screening and identification**

#### **5.1.1. Conceptualization**

Based on Aharoni's (1966) approach, consent is reached that corporations' internationalization activities can be promoted effectively only if management aims to internationalize the corporations' business activities. However, it has been argued that 'the decision to look abroad', as Aharoni called it, should not be seen as the first phase of internationalization, since willingness to internationalize should be considered a necessary precondition. As shown in Chapter 3.10, the first step of a corporations' internationalization and market exploitation processes should thus focus instead on identifying potential markets, which is also in accordance with the research findings of scholars such as Gann (1996) and

Sternad et al. (2013). A ‘global screening’ is meant to be undertaken to identify international markets for which local production activities are required for effective exploitation. To keep the screening and identification process within manageable bounds, it is imperative to select only a limited number of key indicators on which to base an initial analysis of the potential of markets. These factors must be able to be collected, processed, and used in a manageable way to ensure practical applicability in corporations’ daily business routines. Further, these indicators are meant to be the most significant ones determining market exploitation and internationalization strategies of corporations.

The following deduces influencing factors, which are proposed to determine the first phase of the decision-making process model of corporations’ internationalization and market exploitation strategies.

### *Market potential*

The first decisive input variable suggested for consideration in the screening and identification phase, is the potential a market demonstrates. Market potential, which can be equated with sales potential, is a key figure for corporations worldwide that aim to sell products and services since sales volume has an immediate effect on corporations’ profits. International markets that demonstrate high market potential are consequently more relevant to corporations than international markets that demonstrate only moderate or low market potential. Accordingly, the potential that international markets demonstrate strongly determines the relevance they have for corporations. Therefore, it is the international markets that display high market potential that are the target for identification during the initial screening phase.

The theoretical foundations presented in Chapter 3 disclose that market potential, which is often referred to as market attractiveness, has already been depicted by many researchers as a key variable within the process of internationalization. Theoretically, it can primarily be traced back to the concept of location theory. As described in detail in Chapter 3, which provides an overview of theoretical concepts, Lösch (1940) was one of the first to integrate sales-relevant location factors in the location theory approach. He thereby adapted the theoretical concept from finding a cost-minimum production location towards finding a location to maximize profits and benefits within a corporation’s internationalization strategy. Meyer (1960) further strengthened the consideration of sales aspects and declared these as determining factors in the search for an optimal production location. Dunning (1973, 1977)

deepened integration of the ‘market potential’ factor with his ‘eclectic paradigm’. By integrating location-specific advantages, he accentuated the relevance of market-specific aspects within the process of internationalization.

A number of empirical studies have also revealed the significance the ‘market potential’ factor has for corporations during the process of internationalization. Researchers such as Ulrich et al. (2014) have demonstrated market potential as the most decisive external influencing factor within the process of market exploitation. Further empirical studies such as that of Buerki et al. (2014) have also revealed market potential as the most important criteria for why corporations promote internationalization activities in specific international markets. More support comes from a meta-analysis conducted by Morschett et al. (2010), which found market attractiveness as the predominant factor for why corporations internationalize.

Therefore, it is claimed that the ‘market potential’ factor is one element that should determine the decision-making process during a corporation’s internationalization and market exploitation process, particularly within the first phase. An empirical study was conducted to examine this proposition. For this purpose, experts on internationalization were asked whether the market potential offered by international markets is used to determine the classification of international markets as potential markets, with the results indicating further analysis is necessary.

Since it is the aim of the present research to develop a decision-making process for a corporation’s internationalization and market exploitation process that is practically applicable, it is imperative that influencing factors of the process can be collected and processed within manageable bounds. Accordingly, this applies to the ‘market potential’ factor. Normally, the organizational structure of corporations includes a sales and marketing department, with specific markets typically managed by sub-divisions of this department. These sub-divisions carry out market-specific business activities and observe the markets’ sales development. By analyzing a market’s sales development over a ten-year period that includes the preceding five years and the upcoming five years, the sales potential offered by international markets can be estimated. This information is generally available in corporations since sales history is recorded and future sales potential is estimated for strategic mid- to long-term sales planning, which the sales department typically calculates regardless of plans for internationalization. Therefore, no further data collection is needed to operationalize the ‘market potential’ factor. However, a process does need to be established so that the sales

department regularly communicates market-specific sales development and planning information to a strategic unit within the corporation tasked with gathering all relevant information in order to develop an internationalization and market exploitation strategy.

It is thus suggested that practical applicability is ensured since the ‘market potential’ factor can easily be operationalized, determined, and processed. Furthermore, it has been demonstrated that the ‘market potential’ factor can be derived from established theoretical concepts and is informed by empirical studies. Utilizing this factor in the first phase of the decision-making process of a corporation’s market exploitation strategy, the screening and identification phase, is thus suggested to determine whether a specific international market should be classified as a potential market. The empirical study described in the following examines this assumption.

#### *Tariff trade barriers*

In the screening and identification phase, assessing a country’s external trade situation is also suggested. The most commonly applied external trade instrument that nations utilize is the imposition of tariffs. Tariffs are imposed on products exported to a target market from foreign countries. National governments of developing and emerging countries in particular make use of this trade instrument quite frequently. This can be justified by national governments’ efforts to develop their domestic economies. By imposing tariffs on foreign products, national governments directly increase the price of foreign products and thereby simultaneously incentivize residents to choose domestic products available at lower prices. For foreign companies willing to sell their products on international markets, tariffs impede access to these markets and increase the prices of the exports. Due to these circumstances, it may not be possible for international corporations to fully exploit the potential offered by international markets. Accordingly, the level of tariffs strongly affects and complicates corporations’ market exploitation strategies. Thus, corporations that aim to fully exploit the potential that international markets offer may, if an international market has high tariffs, need to adapt their market exploitation strategy from export towards local production activities. As this will avoid tariffs, products can be priced competitively and markets can thus be effectively exploited. Consequently, the ‘tariff trade barriers’ trade instrument is an important aspect for corporations to consider when evaluating whether local production activities could promote market exploitation strategies.

### *Non-tariff trade barriers*

Another important trade instrument is non-tariff trade barriers, which take various forms. Within the automotive industry, special industrial taxes are a prominent example of such non-tariff trade barriers. Since 2013, the Brazilian government, for instance, has imposed a special industrial tax on foreign producers when exporting their products to the Brazilian market (Facanha, 2013). Another example of the implementation of non-tariff trade barriers in the automotive industry comes from Russia. In this case, foreign car manufacturers are obliged to pay a recycling fee when exporting their products to the Russian market. Russian car manufacturers are exempt from this fee (EuroActiv.com, 2013). Applying this mechanism thus starkly resembles levying a duty. Hence, although these measures are called non-tariff trade barriers, they basically have the same effect as tariffs. Foreign products are discriminated against since additional taxes, duties, or fees increase their prices and hence deteriorate their price position on international markets compared to local products. National governments are implementing such non-tariff trade barriers for the same reasons they are implementing tariff trade barriers. National governments aim to protect and foster their local industries. By increasing the prices for international products, political authorities aim to incentivize the local population to primarily consume local products in order to strengthen local corporations. Moreover, national governments aim to incentivize foreign corporations to start local production activities in their countries. The actual impetus for this is political entities' goal of upgrading their countries' local economies. International corporations are thereby seen as players that promote technological upgrade, increase the overall skill level, generate jobs, and pay taxes. Therefore, tariff as well as non-tariff trade barriers are seen as active industrial policy measures of national governments. For international corporations wishing to exploit international markets, these trade barriers hamper them when pursuing an export strategy since, as previously explained, prices of foreign products exported to international markets where trade barriers are levied are artificially increased. The competitive situation in regard to locally producing corporations is thus distorted. Consequently, non-tariff and tariff trade barriers incentivize corporations to produce locally since this enables corporations to avoid these barriers. Therefore, the policy instrument 'non-tariff trade barriers' is suggested to deserve consideration when evaluating whether local production activities can promote market exploitation strategies.

Since the 1980s, theoretical concepts within the field of internationalization and market exploitation strategies have outlined the significant effect external trade policy measures have

on internationally operating corporations. Tesch (1980) combined aspects of international trade and FDI theory in the location theory approach. He strongly suggested consideration of location-specific competitive advantages, arguing that these can directly influence a company's competitiveness and thus strongly influence a company's foreign investment behavior. Evading tariff and non-tariff trade barriers by setting up local production activities can thus be seen as a location-specific competitive advantage. Jahrreiß (1984), moreover, explicitly introduced the relevance of governmental incentives and market-specific variables, such as tariff and non-tariff trade barriers, to internationalization strategies of international corporations. In addition, Stehn (1992) underlined the relevance of considering trade barriers and pledged to integrate this aspect in the eclectic paradigm. Moreover, the monopolistic rent theory (Kindleberger, 1969) considers the external trade situation, more specifically, trade barriers. The theory section in Chapter 3.2.1 demonstrates in more detail the fact that the monopolistic rent theory assumes the imperfection of markets, which can be primarily traced back to structural imperfections. Monopolistic rent theory assumes that these imperfections also occur due to policy interventions such as the application of trade barriers. In addition, in more recent scientific contributions in the field of internationalization strategies, trade barriers have played a prominent role (see for example Dehnen, 2012; Lymbersky, 2008). Moreover, empirical studies have been able to substantiate that tariff and non-tariff trade barriers starkly affect the market exploitation strategies of corporations and should thus be seen as significant input variables that require a detailed analysis from the beginning of the internationalization process (see for example Buckley & Casson, 1998; Ulrich et al., 2014).

Therefore, it is claimed that tariff and non-tariff trade barriers represent important influencing factors that determine the decision-making process of corporations' internationalization and market exploitation strategies, particularly the first phase. The empirical study that was conducted reviews this proposition. For this purpose, experts on internationalization were asked whether the implementation of trade barriers influences the decision-making process in the context of corporations' internationalization and market exploitation strategies, particularly within the first phase, where global screening is undertaken to identify potential markets that could be exploited more adequately if local production facilities were in place.

#### *Free trade agreements*

A fourth influencing factor proposed for consideration in this first phase of the decision-making process model is whether nations have free trade agreements with other nations or

within economic communities. Free trade agreements foster economic relations among signatory parties. Typically, free trade agreements are implemented along a time schedule, which gradually determines the dismantling of trade barriers among participating parties. The aim of free trade agreements is thus to ensure that trade is duty free, so that a barrier-free flow of goods and services is ensured. The existence of such free trade agreements significantly influences the prospective sales potential that corporations assume when exploiting international markets via local production activities. The following example clearly demonstrates this. Companies producing in a particular market such as Mexico exploit not only the market potential of the country where the local production facility is based but also the market potential of countries that have a free trade agreement with, in this example, Mexico. This can be traced back to the fact that goods and services produced in Mexico can be exported to partnering countries without paying import duties. For international corporations, it is thus no longer solely the market potential of the target market that determines the potential for local production activities; it is also the market potential that the signatory parties of other free trade agreements demonstrate. Free trade agreements are inter alia commonly in place in regional communities. The Mercosur region, which is a sub-regional bloc comprising Argentina, Brazil, Paraguay, Uruguay, and Venezuela, is one example of such a regional community. The ASEAN region, which has 10 member states, namely Singapore, Thailand, Indonesia, Malaysia, Vietnam, the Philippines, Laos, Cambodia, Myanmar, and Brunei, is as a further example of a regional community. The implementation of an economic community, which typically captures an important pillar of a regional community, in most of the cases entails the creation of a common internal market. Typically, economic integration, which includes the formation of a shared internal market among member states, is strived for and gradually implemented over a certain period of time. Tariff and non-tariff trade barriers are thus usually progressively reduced by implementing free trade zones, and standards are harmonized. In the final stage of economic communities, member states optimally trade with each other free of duties and without barriers. The following example demonstrates the influence free trade agreements in regional communities have on corporations' internationalization strategies. If a nation such as Thailand, for instance, is part of an economic community, in this case ASEAN, the importance of Thailand for international corporations increases significantly. This can be explained by the fact that international corporations considering production in Thailand to circumvent trade barriers can supply not only the Thai market free of duties but also the entire ASEAN region since Thailand is a member of ASEAN. Local production activities would thus no longer merely aim to exploit



only the Thai market with its 70 million inhabitants but also to maximize the promising market potential of the entire ASEAN region, which has more than 610 million inhabitants. The relevant market potential hence considerably increases. Scale effects should also be considered. Since setting up local production facilities requires an investment, an increase in production quantity reduces, to a certain extent, the fixed costs per production unit. Accordingly, it makes a difference from the perspective of economic costs whether a car manufacturer, for instance, produces 10,000 units in Thailand solely for the Thai market or around 40,000 units in Thailand for the entire ASEAN region. Fixed costs per unit would be reduced in this latter case; critical limits, which determine whether local production activities are economically viable could be exceeded. Accordingly, countries with free trade agreements become more attractive to corporations since these agreements enable corporations to exploit not only the target market's potential but also the potential offered by partner countries. Free trade agreements considerably increase the market and thus sales potential. Scale effects can also be realized. Fixed costs per unit can be reduced; critical limits, which determine whether local production activities are economically viable, could be exceeded. Hence, the participation of a country in free trade agreements matters for corporations aiming to exploit international markets via setting up local production facilities. The existence of free trade agreements thus appears to be an influencing factor, which is proposed for consideration during the screening and identification phase of the decision-making process of corporations' internationalization and market exploitation strategies.

### *Local requirements*

A final influencing factor proposed for consideration within the first process step is 'local requirements', which countries demand that international corporations fulfill if they are willing to produce under incentivized conditions within the particular country. These conditions can be called incentivized since national governments often allow foreign corporations wishing to produce locally to import sets of parts required for their local production activities at reduced import duties. Local requirements can take various forms. Within the automotive industry, nations commonly oblige foreign corporations to achieve a minimum level of local value added or local content. This means that international corporations have to source a minimum percentage of local parts, components, or operating material from local suppliers. By requiring foreign corporations to source local parts, components, or machinery, national governments aim to integrate their domestic economies, in this case domestic suppliers, within the value-added chain. The intention is to spur

technological upgrade since international corporations would have to exchange technological requirements, methods, and processes with the domestic economy. This requirement for local sourcing thus aims to stimulate local business activities. It is also aimed at stimulating local employment. Another example of local requirements within the automotive industry is that nations define the production depth at which manufacturers would have to produce in the particular country. By pre-defining the production depth that foreign corporations need to establish, national governments aim to attract high-value, long-term investments. In addition, since major production depth requires technology, it results in more technology in the target markets and thereby supports domestic economies to achieve technological upgrade and develop productive capacity. A third commonly utilized local requirement countries oblige corporations to fulfill is employing a certain share of local employees. The intention is to promote local employment, foster knowledge spillovers, and upgrade skills. A fourth typically applied local requirement is the obligation for corporations to carry out research and development activities within the target markets. With this obligation, countries aim to foster technological upgrade within their borders. This aim is for new technologies to be introduced from abroad and locally; and foreign and local employees are expected to jointly develop new technologies by exchanging ideas, which is hoped to foster knowledge spillovers. These local requirements that foreign governments impose on corporations wishing to set up local production facilities in their countries have the objective of promoting the development of domestic economies. At the same time, however, these requirements complicate the implementation of local production activities for foreign corporations. For example, it may be challenging to fulfill the local value-added requirement since target markets often do not have a pronounced supplier industry. It is thus not always possible for corporations to fulfill the required local content share since material, parts, and components cannot be sourced locally at an adequate quality or price level. The required production depth may also pose difficulties to corporations since a major production depth entails a high level of investment, which a corporation must be able and willing to make. This also requires a certain annual production volume, to make production activities economically viable. If the required production volume is higher than the market's sales potential, local production activities are not feasible. The definition of a ratio of local to foreign employees may also cause problems for corporations since within the implementation phase in particular, many experts are needed who have specific technological knowledge, professional experience, and product-specific expertise to set up local production activities. Finally, corporations may not be willing to implement research and development activities abroad since these activities are commonly seen as highly

sensitive and strategic. In many cases, corporations prefer to carry out these activities at their headquarters, which are commonly located in their home country. Local requirements imposed by countries on corporations wishing to produce in the particular country are thus proposed as an important criterion corporations should consider when deciding where to set up local production activities. It is thus an essential dimension to consider in the first process step, the screening and identification phase, of the decision-making process of a corporation's internationalization and market exploitation strategy.

The theoretical concepts previously mentioned to reflect upon aspects of the second and third influencing factors, namely tariff and non-tariff trade barriers, are also the theoretical base for the fourth and fifth influencing factors, namely the existence of free trade agreements and the prevalence of local requirements. As previously shown, location theory, specifically Tesch's (1980) work, strongly advocates considering country-specific framework conditions within the decision-making process of corporations' internationalization and market exploitation strategies. The existence of free trade agreements and the prevalence of local requirements are important country-specific framework conditions that affect corporations during the process of internationalization. Moreover, Jahrreiß' (1984) work as well as the monopolistic rent theory (Kindleberger, 1969) explicitly outline the relevance governmental incentives and policy interventions, such as local requirements countries impose on foreign corporations, have on internationalization strategies of corporations. A similar argument can be found in Dunning's eclectic approach (1973, 1977) in which he explicitly points out that location-specific advantages should be considered. The existence of free trade agreements ought to be subsumed as a location-specific advantage. The predominance of local requirements, on the other hand, can be classified as a location-specific disadvantage. Nonetheless, such negative framework conditions are also important aspects that need to be considered within the decision-making process in regard to when and where to produce to exploit international markets effectively. Lösch (1940) placed great emphasis on sales-relevant aspects of location theory and suggested considering these as market selection criteria within the exploitation process. This theoretical idea was further strengthened by Meyer (1960), who has also focused on the consideration of market potentials, which theoretically underlines that an increase of sales potential, for example, due to the existence of free trade agreements, significantly influences corporations' internationalization and market exploitation strategies. More recently, further scientific accounts have strengthened the significance of the influence that free trade agreements have on internationalization strategies of corporations. Calls have

been made to intensify academic research to evaluate the relevance of free trade agreements to corporations' internationalization and market exploitation strategies (see for example Dehnen, 2012).

Therefore, it is claimed that the existence of free trade agreements as well as the predominance of local requirements represent important influencing factors that need to be considered, particularly in the first stage of a corporation's decision-making process in the context of internationalization and market exploitation. The empirical study aims to determine the relevance of the influencing factors 'free trade agreements' and 'local requirements'. For this purpose, automotive industry experts were asked whether the existence of free trade agreements embodies the potential for local production activities in international markets. Moreover, they were asked whether local requirements that governments impose on corporations wishing to produce in their countries influence a corporation's assessment about whether foreign countries are classified as markets that demonstrate potential for more adequate exploitation if local production facilities were in place. The empirical study thus reveals whether these influencing factors should be considered in the first phase of the decision-making process of corporations' internationalization and market exploitation strategies.

In terms of practical applicability, corporations have different options in regard to how to gather and process information about the external trade situation of international markets. Large corporations commonly have a division, typically within the finance department, that manages the corporation's international trade flows. This division must remain informed about international trade regulations and customs' laws anyway to manage day-to-day import and export proceedings. Information about tariff rates, non-tariff trade barriers, and the existence of free trade agreements is thus already known within the company. Again, no further data collection is necessary to operationalize the influencing factors 'tariff barriers', 'non-tariff trade barriers', and 'free trade agreements'. Information on local requirements that countries impose on foreign corporations wishing to produce locally may exist within the same business unit. If this is not the case, information on local requirements must be gathered either by this business unit or the strategic unit proposed to coordinate the corporation's internationalization and market exploitation strategy.

It is suggested that in regard to the influencing factor 'tariff trade barriers', respective business units should compare tariff rates for exporting fully built up vehicles (FBUs) to tariff rates for exporting sets of parts to supply local production facilities. In the example of

Thailand, this initial comparison indicates a potential for local production activities since tariff rates of 80% need to be paid when exporting FBUs from the EU to the Thai market. Exporting sets of parts to supply a local production facility, however, is duty free (European Commission, 2015). Following a local production strategy would thus imply considerable customs advantages. In addition, ‘non-tariff trade barriers’ should be analyzed briefly in the initial evaluation of potential. It is also proposed here that the responsible business unit should compare fees for exporting FBUs to those for exporting sets of parts to supply local production facilities. In the case of Brazil, this initial brief estimation indicates that the tax rate for industrialized products exported from the EU to Brazil is 43% whereas locally produced products are subject to a tax rate of 13% (Facanha, 2013). Applying a local production strategy would thus entail significant tax advantages. Further, it is proposed that the responsible business unit should analyze whether the target market has free trade agreements with other countries. It should be determined whether, because of these free trade agreements, additional countries could be accessed more easily if local production activities were installed in the target market. The following example demonstrates this more clearly. Analyzing implications of a local production strategy in Brazil yields information that not only could the tax rate for industrialized products be reduced from 43% to 13%, which would improve the competitive situation in the Brazilian market, but also FBUs produced in Brazil could be exported to Argentina without paying customs duties. In comparison, the tariff rate for exporting an FBU to the Argentinian market from the EU is 35% (European Commission, 2015). A brief evaluation of a target market’s free trade agreements can thus reveal whether the implementation of local production activities could result in advantageous market access strategies for further countries. It is proposed that responsible business units also analyze the influencing factor ‘local requirements’. Local requirements can be multi-layered. As previously explained, emerging markets commonly require foreign corporations to fulfill a predetermined production depth or local value-added share. It is suggested that at this initial evaluation step, information about these requirements should be gathered. In the example of Brazil, this estimation would imply that a reduction of the non-tariff trade barrier would only enter into force when, on the one hand, local production activities include a body and paint shop and, on the other hand, a certain local value-added share is attained (APEX, 2015; Facanha, 2013). This information is essential for an initial assessment of whether local production activities to adequately exploit target markets’ potential are feasible.

A process would need to be established to ensure the flow of information from the specialist division within the finance department to the strategic unit within the corporation where all

relevant information associated with internationalization and market development strategies is bundled.

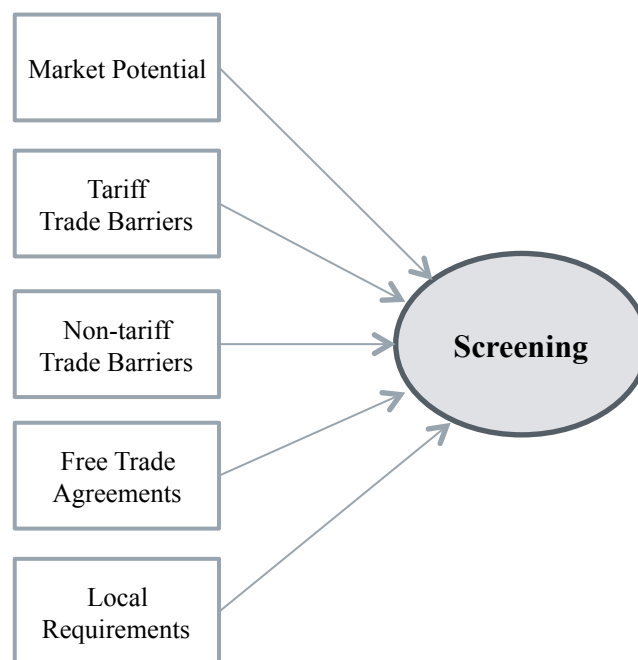
It can be assumed that the organizational structure of most automobile manufacturers and suppliers includes such a specialist division. However, if such information is not gathered and processed in the course of a corporation's daily business, it can be obtained externally. Reliable sources of information about tariff and non-tariff trade barriers of international markets as well whether countries have free trade agreements and what local requirements they impose on foreign corporations include Germany Trade and Invest (<http://www.gtai.de/GTAI/Navigation/EN/welcome.html>), the economic development agency of the Federal Republic of Germany, and the European Commission's freely accessible database, the Market Access Database ([http://madb.europa.eu/madb/datasetPreviewFormATpubli.htm?datacat\\_id=AT&from=publi](http://madb.europa.eu/madb/datasetPreviewFormATpubli.htm?datacat_id=AT&from=publi)), which provides valid tariff and non-tariff schemes for all international markets. Further, the World Trade Organization provides information about countries' memberships in economic communities and provides a transparent listing of free trade agreements (<http://ptadb.wto.org/?lang=1>). In addition, economic ministries commonly disclose information about the existence of free trade agreements and local requirements they oblige international corporations to fulfill. The Ministry of International Trade and Industry of Malaysia is an example of this (see <http://www.miti.gov.my/>) as well as the Department of Foreign Trade (see <http://www.dft.go.th/Default.aspx?alias=www.dft.go.th/en>) and the Board of Investment (see <http://www.boi.go.th/index.php?page=index>) in Thailand.

Practical applicability can thus be ensured since the influencing factors 'tariff trade barriers', 'non-tariff trade barriers', 'free trade agreements', and 'local requirements' can be operationalized and processed. Further, it has been demonstrated that these factors are part of established theoretical concepts. Moreover, several empirical studies have substantiated the relevance of these factors, especially trade barriers, in the process of internationalization and market exploitation strategies of corporations. However, there are no existing empirical studies that explicitly investigate the third and fourth influencing factors, namely 'free trade agreements' and 'local requirements'. Therefore, it is assumed that so far no empirical study has evaluated all relevant dimensions of a countries' external trade situation, reflecting on not only 'tariff trade barriers' and 'non-tariff trade barriers' but also 'free trade agreements' and 'local requirements' that countries impose on international corporations. Calls have been made to further analyze the impact that free trade agreements have on corporations' internationalization and market exploitation strategies (Meyer, 2000, p. 103 et seq.; Welge &

Holtbrügge, 1997, p. 1054 et seq.). Accordingly, it is suggested to integrate the influencing factor ‘market potential’ as well as the indicators ‘tariff trade barriers’, ‘non-tariff trade barriers’, ‘free trade agreements’ and ‘local requirements’ in the screening and identification phase to identify those international markets with potential to be exploited more adequately with the implementation of local production activities. The empirical study, discussed in the following, was aimed at investigating this assumption.

Correspondingly, it is proposed that the decision-making process of corporations’ internationalization and market exploitation strategies should begin with a screening and identification phase. To pre-select markets that demonstrate potential for more adequate exploitation with the implementation of local production activities, considering the influencing factors ‘market potential’, ‘tariff trade barriers’, ‘non-tariff trade barriers’, ‘free trade agreements’, and ‘local requirements’ is suggested (see figure 14).

*Figure 14: Phase One - Screening and Identification*



Source: Own figure.

### 5.1.2. Operationalization

The first process step has been determined as the screening and identification phase. The influencing factors ‘market potential’, ‘tariff trade barriers’, ‘non-tariff trade barriers’, ‘free

trade agreements’, and ‘local requirements’ have been deduced as having an impact on the screening phase.

An empirical investigation, which is explained in more detail in Chapter 6.1, was undertaken to evaluate whether the identified influencing factors determine the decision-making process of corporations’ internationalization and market exploitation strategies. Surveying automotive experts allowed to examine whether the discussed influencing factors, the construct items, adequately determine the first process step, the screening and identification phase. The interrogated automotive experts, who deal with internationalization processes in their daily business routines, evaluated the impact influencing factors, and thus the construct items, have on the initial process phase, and hence on the model’s first construct. Construct item-specific statements were integrated in a questionnaire (see table 5). A high approval score of a construct item-specific statement implies that the interviewed automotive expert classified a construct item as relevant for explaining the construct (Helm, 1997, p. 153 et seq.).

*Table 5: Operationalization Phase One*

Short description of the construct item	Construct item-specific statement
<b>Market Potential</b>	The sales potential a country’s automotive market offers significantly impacts whether an evaluation about sales-oriented local production activities in this country should be undertaken.
<b>Tariff Trade Barriers</b>	High tariff trade barriers, which raise the price of exporting fully built up vehicles, are a major influencing factor as to why local production activities should be taken into consideration.
<b>Non-tariff Trade Barriers</b>	High non-tariff trade barriers, which accrue when importing fully built up vehicles and thus increase the cost of the export business, offer an incentive to produce locally.
<b>Free Trade Agreements</b>	A country that has free trade agreements with third countries has potential for local production activities since this may indicate additional sales potential.
<b>Local Requirements</b>	Market-specific requirements that corporations wishing to produce locally would need to fulfill have an impact on whether an evaluation of local production activities should be initiated.

Source: Own table.

## 5.2. Phase two: country analysis

### 5.2.1. Conceptualization

It has been suggested that the screening and identification phase should be the first step of the decision-making process of corporations’ internationalization and market exploitation strategies. It has been shown that within this phase, international markets ought to be screened to identify those that demonstrate potential to be exploited more adequately if production



facilities were set up locally. Aharoni (1966, 1999) and Gann (1996) argued that after the first process step, where potential markets are pre-selected, a ‘detailed analysis’ should be executed. However, it was briefly disclosed in Chapter 3.10 that carrying out a detailed analysis on every pre-selected potential market would be very resource- and time-intensive. Accordingly, this approach is not practical for everyday business. Appropriately, Chapter 3.10 proposed modifying existing process models by splitting up the investigation process in which a detailed analysis is performed into two process steps. First, a country analysis that reflects upon local framework conditions is proposed. Taking a market-based view that considers external factors has also been advocated in the literature, which was previously discussed in Chapter 3.7 (see for example Helm, 1997; Perlitz & Seger, 2000; Ulrich et al., 2014). The aim of undertaking an environmental analysis, a country analysis, is to assess whether an identified potential market has the necessary framework conditions for further exploitation by setting up local production facilities. If this is feasible, a detailed analysis follows in a third process step, in which detailed firm-specific aspects should be incorporated to decide whether local production facilities can be profitably realized. This segmentation into two steps enhances practical applicability since it conserves limited resources. It is argued that the strategic business unit responsible for a corporation’s internationalization strategy, which carries out the screening and identification phase, can also carry out these country analyses for the most part. Other divisions of a corporation ought to give moderate support in this period to provide the strategic unit with subject-specific information, which is commonly already available or easily obtainable. Therefore, preparing a country analysis in the second phase of the decision-making process of corporations’ internationalization and market exploitation strategies is suggested. In the following, influencing factors that should be considered when preparing a country analysis are proposed. At a later stage, these factors are underlined by the results of the empirical study.

### *Economic performance*

A country’s economic performance is suggested as the first influencing factor within the second process step, the country analysis. Generally, economic indicators are used to determine a country’s economic performance to establish international comparability. One of the most commonly used indicators to determine the economic performance of a country is its gross domestic product (GDP), which is a measure of a country’s overall economy. “As an aggregate measure of production, GDP is equal to the sum of the gross value added of all resident institutional units engaged in production, plus any taxes on products and minus any

subsidies on products” (EuroStat, 2016a, para. 1). GDP estimates can be used to calculate the growth of an economy, generally on a yearly basis. Development of the GDP indicator thus demonstrates a nation’s economic development and provides information on the success of a nation’s economic policy. The annual percentage growth rate of the GDP is an important indicator to evaluate a country’s economic growth performance over a certain period, particularly for corporations. It reveals an economy’s long-term developmental path and demonstrates its expected economic development. Based on this, corporations can evaluate the robustness and prospective economic growth potential of a country’s economy. This evaluation decisively impacts a corporation’s decision whether to classify a market as a potential market that requires further analysis.

An additional important indicator proposed for consideration when evaluating a country’s economic performance is its GDP per capita. This indicator specifies the average GDP per person of a country’s entire population (EuroStat, 2016b). It demonstrates the purchasing power of a country’s population and is thus a central indicator for firms to evaluate whether a country’s population could afford to buy its products.

A third indicator that should be consulted to assess the stability of macroeconomic conditions in a country is inflation. “Inflation is an increase in the general price level of goods and services. When there is inflation in an economy, the value of money decreases because a given amount will buy fewer goods and services than before” (EuroStat, 2016c, para 1.). Inflation thus reflects a reduction of the purchasing power per unit of money. Typically, inflation is measured by the inflation rate, an annualized percentage change in a general price index (EuroStat, 2016c). The inflation rate represents an indicator that corporations can use to evaluate a country’s economic performance and robustness. Consistent, moderately increasing inflation rates demonstrate macroeconomic stability, a characteristic corporations wishing to make an investment abroad highly appreciate. On the other hand, corporations must be vigilant about countries that exhibit volatile inflation rates. While volatile macroeconomic conditions do not necessarily disqualify countries from becoming potential markets, increased attention has to be paid since, for instance, business models may need to be adjusted during the process of implementation.

A last indicator that should be considered when evaluating a country’s economic performance is exchange rate development. This is an important indicator for corporations evaluating setting up production facilities abroad, since a changing exchange rate has immediate effects on the profitability of such undertakings. It is thus recommended to also take exchange rate

development into consideration when assessing a country's economic performance and its stability.

Accordingly, it is suggested that a country's economic performance is an important criterion that corporations need to consider when deciding in which international markets local production activities should be set up to exploit market potential more adequately. The influencing factor 'economic performance' is thus proposed to be considered in the second process phase of corporations' internationalization and market exploitation strategies.

Theoretical concepts outline the significance of countries' economic performance on internationalization strategies of corporations. Porter (1991) prominently emphasized the importance of local environment, such as the economic performance of countries, which is elaborated in more detail in Chapter 3.5. Porter thereby explicitly claimed that local environment directly affect a firm's corporate strategy and its strategic choices (Kretzberg, 2008). Other authors such as Helm (1997) or Dehnen (2012) have moreover stated that the attractiveness of markets, which to a certain extent can be traced back to their economic performance, considerably determines internationalization and market exploitation strategies of corporations. Within this field of research, scientists also widely agree on carrying out a PEST analysis, which is outlined in Chapter 3.9 in more detail, to evaluate whether international markets show potential to be exploited effectively with the implementation of local production activities. The 'E' in the PEST stands for 'economic factors' and underlines the importance that many authors have attributed to the economic performance of potential markets. Aspects such as economic growth potential, cyclical economic development, and exchange rate fluctuations have been discussed in this respect (see for example Sternad et al., 2013; Winkler et al., 2015).

Empirical studies have moreover underscored the relevance of the influencing factor 'economic performance' of foreign countries for corporations' internationalization and market exploitation strategies (see for example Buerki et al., 2014; Helm, 1997).

Therefore, it is claimed that the economic performance of a potential market represents a decisive influencing factor that needs to be considered, particularly in the country analysis, which represents the second phase of the decision-making process of corporations' internationalization and market exploitation strategies. The empirical study, which asked experts on internationalization to evaluate the process phases and influencing factors of the established conceptual decision-making process model of corporations' internationalization

and market exploitation strategies, has the objective of exploring this influencing factor's significance. For this purpose, experts were asked whether the economic performance of potential markets influences a corporation's decision to initiate a detailed feasibility study of local production activities in potential markets. The empirical study thus aims to reveal whether this influencing factor should be considered in the second phase of the decision-making process of corporations' internationalization and market exploitation strategies.

It is suggested that the same strategic unit carrying out the screening and identification process should also generate the country analysis. To evaluate the first influencing factor of the country analysis, namely 'economic performance', the strategic unit ought to compile and prepare the previously discussed indicators: the development of a country's GDP and GDP per capita, as well as the development of the inflation rate and the exchange rate. Country-specific indicators are made transparently available and can be retrieved from institutions such as the World Bank (<http://data.worldbank.org/country>), the Central Intelligence Agency (CIA) (<https://www.cia.gov/library/publications/the-world-factbook/.html>), and the European Commission (<http://ec.europa.eu/eurostat/de/data/database>).

Practical applicability is thus ensured since an evaluation of economic performance can easily be carried out. Moreover, it has been shown that the factor 'economic performance' plays a prominent role in established theoretical concepts. Additionally, empirical studies have substantiated the significance of this influencing factor for the market exploitation process. The empirical study, which is discussed in the following, is thus meant to examine the relevance of the influencing factor 'economic performance', particularly in the second phase, the country analysis, of corporations' internationalization and market exploitation strategies.

#### *Development of the automotive market*

For a second influencing factor in the second process step, the country analysis analyzing the country-specific development of the automotive market or the corresponding region-specific development where free trade agreements are in place is suggested. Since it is aimed to focus on internationalization and market exploitation strategies within the automotive industry this particular industry will be assessed. The process model, however, can also be used for other industry branches. Of course, these industry branches would accordingly require further elaboration.

Investigations must be carried out in regard to how the automotive market, in terms of sales volume, has developed in recent years and how it is expected to develop in the coming years. The analysis of the automotive market ought to be as detailed as possible, but the level of detail may vary by country since the availability of information differs depending on the country being analyzed. In Thailand, for instance, a well-organized automotive institute exists that closely tracks registration figures whereas in Angola such an institute does not exist, which implies that registrations are not recorded. Accordingly, the level of attainable information of those two automotive markets would be quite different. If possible, the analysis of a country's automotive market should constitute more than past and expected sales volume. Unfolding segment shares, for instance, are also relevant to car manufacturers since this information helps corporations develop a sense for market-specific appropriate product portfolios. Competitors' sales performance, specifically their product portfolios and respective sales figures, should also be studied when analyzing the automotive market. This gives automobile manufacturers a feeling for the market and an idea of market strategies. Finally, it is also interesting to examine prevailing automotive policies.

The idea of integrating a sector-specific analysis is part of existing theoretical concepts. Porter (1991), for example, underlined that characteristics of specific industrial branches of international markets and the industrial branches' structure require consideration when corporations develop internationalization strategies. In his diamond concept, for instance, which is explained in more detail in Chapter 3.5, he elaborated on the significance of demand conditions. He emphasized that these directly affect a firm's strategy and strategic choices. Integrating demand conditions by reflecting upon sales figures and segment shares is thus part of well-established theoretical concepts. More recently, Schonert (2008) also elaborated on the significance of incorporating the market-based view. He highlighted explicitly focusing on sector-specific information and investigating the structure of specific industry branches.

One of Porter's (1980) key concepts, namely the five forces model, elaborates on the necessity of formulating a corporate strategy to effectively deal with competition. Porter thereby explicitly suggested reflecting on the intensity of rivalry, which represents one of his model's five forces. He suggested analyzing the sources of each force in detail and thus underlined the importance of considering competitors' market-specific strategies. Finally, he proposed that strategists of corporations need to analyze the five forces and their firm-specific implications to develop a corporate strategy with strategic moves such as tapping new

markets and stimulating the balance of these forces with the objective of improving a company's position.

Scholars such as Sakarya, Eckman, and Hyllegard (2007) and Buerki et al. (2014) showed in their empirical studies that the competitive strength of a firm's industry in the target market is important and requires analysis as part of the market exploitation process.

Accordingly, it is suggested that the development of the industry branch should be investigated as part of the country analysis. Thus, integrating the 'development of the automotive market' as a second influencing factor in the second phase, the country analysis, of the decision-making process of corporations' internationalization and market exploitation strategies is proposed. As part of the empirical study, experts were correspondingly asked whether the development of a specific industry branch, in this case the automotive industry, determines whether markets are classified as potential markets requiring further analysis. Hence, the study indicates whether this influencing factor should be considered within the second phase of the decision-making process of corporations' internationalization and market exploitation strategies.

As previously mentioned, it is proposed that the same strategic unit carrying out the screening and identification process should also perform the country analysis. To evaluate the development of a country's automotive market more closely, the strategic unit needs to cooperate with the divisions of a company that have market knowledge. Typically, the sales department has the closest relations with international markets. Commonly, there is a regular exchange with local players such as the government, automobile authorities, importers, and the dealer network. Business trips are usually made several times a year. Therefore, the sales department is often up to date on how, in this case, the automotive industry of a particular country is performing, which trends are prevailing, and who the central players are. Since the sales department usually estimates a strategic, mid- to long-term sales forecast anyway, information that is important primarily to sales directors is used as the basis for these long-term estimates. Accordingly, a great deal of information about country-specific automotive markets is generally available in a company and is updated regularly. However, a process needs to be established involving the sales department and the strategic unit developing the internationalization strategy to ensure that information is passed on from the sales department to the strategic unit. For example, a regular quarterly exchange between the sales department and the strategic unit could be initiated to ensure an effective interchange of information.

Local authorities such as ministries of industry and trade, economic development agencies, and automotive associations also typically provide further country-specific information about different industry branches (see e.g., <http://www.miti.gov.my/>; <http://www.dft.go.th/Default.aspx?alias=www.dft.go.th/en>; <http://gtai.de/GTAI/Navigation/EN/welcome.html>; <http://www.boi.go.th/index.php?page=index>; <http://anfavea.com.br>).

Since the collection of data is proposed to require only a limited amount of resources, practical applicability of integrating the factor ‘development of the automotive market’ is feasible. Theoretical as well as empirical studies have also underlined the relevance of considering industry-specific information as part of internationalization process models of corporations. The empirical study thus aims to examine the relevance of considering the influencing factor ‘development of the automotive market’ in the second phase, the country analysis, of a corporation’s market exploitation process.

#### *External trade situation*

Another influencing factor determining a corporation’s decision whether to exploit a country via local production facilities is a country’s external trade situation. A country’s external trade situation has previously been claimed as a significant influencing factor that starkly influences whether international markets require local production facilities for adequate exploitation. Some dimensions of a country’s external trade situation have thus already been identified as decisive factors that determine whether international markets are pre-selected and thus pass the first phase of the market exploitation process. However, investigating a country’s external trade situation in more detail, including all its sub-dimensions, is suggested as necessary when executing a country analysis.

First, a country’s tariff scheme requires a detailed analysis. In the first stage, it has been proposed that it is sufficient to compare tariffs for exporting FBUs to international markets to tariffs for exporting sets of parts to supply production facilities abroad. For a first estimation, this information is appropriate to evaluate whether tariff trade barriers could be reduced when adjusting a corporation’s strategy from an export towards a local production strategy. In the second process step, a more detailed analysis is necessary to work out exact tariff rates. Specific characteristics of FBUs, such as the exact cylinder capacity, and characteristics of sets of parts that would be exported to supply local production facilities are suggested for consideration so as to determine precise tariff rates. In Pakistan, for instance, a detailed

analysis reveals that duty rates for exporting automobiles with a high cylinder capacity are particularly high (European Commission, 2015). Accordingly, the local production of these vehicles would imply significant customs advantages. Thus, undertaking a more detailed analysis of a target country's tariff scheme is proposed.

The same applies to non-tariff trade barriers. Whereas identifying whether countries implement non-tariff trade barriers has been suggested in the first process step, in the second process step, it is essential to specify these non-tariff trade barriers and complete a detailed analysis of the explicit set of rules that apply. In the example of Russia, it is thus insufficient to disclose solely the amount of the recycling fee that would be paid when exporting FBUs to the market but which would not be incurred when producing locally. It is recommended that a detailed analysis should be undertaken as to whether the payable recycling fee depends on model-specific characteristics such as the year of construction, cylinder capacity, drive technology, or sales price. Further information ought to be gathered about the payment process for the recycling fee. In addition, explicit conditions that OEMs must meet to be exempt from paying the recycling fee must be evaluated. A detailed analysis of non-tariff as well as tariff trade barriers at this assessment phase is thus recommendable.

For a country analysis, it is also necessary to gather detailed information about a country's economic ties to other countries. In this stage of the market exploitation process, it is appropriate to separately analyze a country's free trade agreements and membership in economic communities. Detailed information about membership in economic communities need to be gathered: the set of rules of the respective economic communities must be studied, the implications for corporations' business activities must be assessed, and prospective development must be analyzed. The same applies to studying the details of free trade agreements. Information should be gathered about whether free trade, thus a duty-free exchange of goods, has already been fully implemented for all product categories among contracting parties. If not, prospective timelines in regard to when this will be completed should be determined. In addition, it should be ascertained whether specific conditions have to be fulfilled in order to effectively export duty free to partner countries, since it is often the case that certain local value-added requirements must be achieved to really profit from duty-free export.

Finally, local requirements ought to be examined precisely. For example, it is no longer sufficient to be informed only about the local value-added share local manufactures need to fulfill to benefit from local incentives such as customs or tax facilitation. At this advanced stage, it is proposed that it is necessary to outline the explicit set of rules surrounding local



value-added requirements. Information about specific local value-added requirements should be obtained and transparently disclosed. For instance, clarifying whether local value can be generated via local assembly processes or if local requirements force manufacturers to source local parts is suggested. Moreover, the formula for calculating local value added ought to be clarified and outlined.

In the country analysis, examination of the dimensions ‘tariff trade barriers’, ‘non-tariff trade barriers’, ‘membership of economic communities’, ‘free trade agreements’, and ‘local requirements’ of the influencing factor ‘external trade situation’ are hence proposed. Detailed analysis of every dimension is suggested.

The relevance of the various dimensions of the influencing factor ‘external trade situation’ has been previously outlined. Theoretical concepts have also been presented that underline the importance of considering these aspects as part of the internationalization and market exploitation process of corporations. It has also been demonstrated that practical applicability is assured since detailed information about trade regimes is typically available within corporations carrying out international business activities. Reliable sources of information relevant for carrying out a comprehensive assessment of a country’s external trade situation have been listed. The empirical study thus investigates whether experts of the automotive industry label the external trade situation of a country as an important influencing factor in the decision-making process of corporations’ internationalization and market exploitation strategies. This factor is proposed for detailed study, since it is argued as imperative for drafting a sound and holistic country analysis, which is meant to be the base for answering the question of whether a country’s market potential should be exploited by setting up local production facilities.

#### *Local production activities and local supplier industry*

To prepare a sound and holistic country analysis, including a fourth influencing factor is proposed. Corporations aiming to exploit international markets by setting up local production activities ought to examine local production activities already being carried out within the target market. This should be done within the country-specific analysis process. Information about production activities, particularly within the relevant industry branch should be gathered. Detailed information about other corporations’ local production activities should be collected. It should be disclosed which international companies are already producing in the target market or planning to do so. Moreover, information about the production depth as well

as the products being produced locally should be gathered. By doing this, corporations can discover who is producing in the target market, the current production depths, and the products being produced locally to gain a sense of domestic production activities. Such an analysis also reveals whether necessary industrial framework conditions such as adequate infrastructural conditions and an adequate labor force are in place.

Optimally, further information should be gathered in regard to whether locally producing corporations source local parts, components, materials, or operating machinery; if so, local suppliers should be listed. Thus, as a fifth influencing factor, it is suggested that the local supplier industry be examined in more detail. Suppliers of the local automotive industry and their product portfolios should be transparently listed and, if possible, their business relations disclosed. To achieve international comparability among supplier industries of different countries, the local buyer index (LBI) has been developed. This index provides information about how cost-effective parts and components can be sourced on international markets. The index is based on European procurement price levels so the European LBI is 100. Countries where sourcing activities can be realized more cost-effectively would thus have an LBI below 100. On the other hand, in countries where local supplier industries are not pronounced or have a more expensive cost structure, local sourcing activities would primarily cause inefficiencies. The LBI of such countries would thus most likely be above 100. Information about country-specific supplier industries is vital for corporations since, as previously explained, local production activities are commonly required to fulfill a minimum local value-added percentage. Whether the required local value-added share can be met cost efficiently, however, very much depends upon the state of the domestic supplier industry. It is thus proposed as important for car manufactures to gather information about the local supplier industry at the second stage of the market exploitation process.

Theoretical concepts reflecting upon aspects such as these have *inter alia* been discussed already. Porter (1991) emphasized the importance of considering the characteristics of industrial sectors. He underlined the relevance of sector-specific information for corporations' strategies. In particular, he accentuated evaluating related and supporting industries as well. These characteristics and sector-specific information include details about local production activities and supplier industries. In addition, as previously discussed, Schonert (2008) underscored focusing on sector-specific information and investigating the structure of specific industry branches.

Previously mentioned empirical studies have also stressed the importance that industry-specific information has on corporation's internationalization strategies (see for example Buerki et al., 2014; Sakarya et al., 2007). However, empirical studies explicitly aimed at exploring the influence that local production activities and supplier industries have on a corporation's market exploitation process have not yet been conducted.

It is suggested that the influencing factors 'local production activities' and 'local supplier industry' are decisive for corporations' market exploitation strategies. Therefore, these aspects are considered as fourth and fifth influencing factors for the country analysis. The empirical study aims to examine explicitly whether local production activities and supplier industries have an impact on a corporation's decision-making process in regard to internationalization and market exploitation strategies. The empirical investigation consequently aims to demonstrate whether the influencing factors 'local production activities' and 'local supplier industry' should be considered as part of the country analysis that represents the second phase of the decision-making process of corporations' internationalization and market exploitation strategies.

Collecting information on local production activities and the supplier industries of international markets is a task suggested for completion primarily by the strategic unit of a corporation. Information about local production activities includes which manufacturers are present in the target market, the production depth being pursued, which products are being manufactured, and details about local sourcing activities. Typically, this kind of information is not yet existent since no other department has hitherto collected it since it is not relevant to other departments' daily business. Accordingly, the strategic unit has to obtain this information externally. A good start to this is, again, to approach economic development agencies such as, in the case of Brazil, APEX Brasil, the Agência Brasileira de Promoção de Exportações e Investimentos, or Brazilian Trade and Investment Promotion Agency (<http://apexbrasil.com.br/en/home>). Thailand's Board of Investment (BOI) is a further example of such an economic development agency that provides information on local production activities within a country (<http://www.boi.go.th/index.php?page=index>). These agencies typically provide transparent listings of companies actively pursuing business activities in their country. Further sources of information are automotive associations such as, again in the case of Brazil, Anfavea, the Associação Nacional dos Fabricantes de Veículos Automotores, or the National Association of Motor Vehicle Manufacturers

(<http://anfavea.com.br>) or, in the case of Thailand, the Thai Automotive Institute (<http://thaiauto.or.th/2012/default.asp>). Information can also be obtained directly from car manufacturers since production activities are commonly transparently communicated on their websites (see e.g., Bayerische Motoren Werke (BMW), [http://www.bmwgroup.com/bmwgroup\\_prod/d/0\\_0\\_www\\_bmwgroup\\_com/produktion/produktionsnetzwerk/produktionsstandorte/standorte/index.html](http://www.bmwgroup.com/bmwgroup_prod/d/0_0_www_bmwgroup_com/produktion/produktionsnetzwerk/produktionsstandorte/standorte/index.html) or Mercedes Benz, <http://www.daimler.com/karriere/jobsuche/standorte/>). The strategic unit carrying out the country analysis should thus gather relevant information to come up with a meaningful overview of the target's market local production activities. Since this unit has likely already implemented a regular process with the sales department to exchange information about specific markets, the strategic unit should also check with the sales department about whether information regarding local production activities is available. Since the sales department is closely connected to the markets, as previously discussed, information about production activities may have been communicated in this context through exchange with local partners. Another important internal form of cooperation that should be established in this context is an exchange between the international procurement department and the strategic unit. The procurement department typically has information about where global players of the supplier industry are producing throughout the world. In addition, the procurement department commonly tracks the development of the local buyer indices of international markets. Thus, information about supplier industries worldwide is already available within corporations. Again, the focus should be on implementing a process to ensure the flow of information from the specialist unit to the strategic unit, where all relevant information can be bundled to develop a sound and comprehensive internationalization strategy.

In terms of practical applicability, it is challenging for the strategic unit to gather all relevant information to come up with a reasonable assessment of local production activities and the local supplier industry. While internal sources of information can be used, these are likely insufficient for a holistic survey of local production activities. Therefore, an external information search should be conducted. Theoretical as well as empirical studies have accentuated integrating sector-specific information into the decision-making process about whether to exploit international markets via local production activities. However, there have been no empirical studies that have explicitly examined the relevance of local production activities and local supplier industries for corporations' market exploitation strategies. The empirical study, which is discussed in the following, thus aims to examine whether the

influencing factors ‘local production activities’ and ‘local supplier industry’ are relevant for corporations to decide whether to exploit international markets via local production activities.

#### *Competitors’ local production activities*

A final influencing factor proposed for consideration in the country analysis is explicit information about competitors’ behavior in the target market. The section on development of the automotive market has already explained the importance of examining competitors’ sales patterns, business-to-customer behavior, and product portfolios to find out more about their market strategies and to get a sense of the market. However, it is also proposed that determining whether competitors are producing locally is essential. If so, it is relevant to gather information about competitors’ motives to produce locally, their production depth, the locally produced products, production volume, and whether competitors are using the target market as an export hub and thus exporting locally produced products to third countries. In addition, it is seen as important to find out more about competitors’ locally placed investments, their local value-added shares, and their cooperation with partners such as contract manufacturers or suppliers.

These details are deemed to be important to corporations that are in the process of investigating whether to exploit a target market by implementing local production activities. First of all, information on whether competitors are producing locally in the target market and, if so, whether their motives can be traced back to market exploitation is vital. If this is the case, this is proposed to give corporations an idea about whether they have appropriately classified the target market as demonstrating potential for more effective exploitation if local production activities were in place, since competitors’ strategies may indicate an advantage to producing locally to exploit the market more efficiently. Moreover, this may indicate whether a corporation continuing an export strategy would be on a level playing field with the competitors producing locally. Secondly, it is important to determine the production depth competitors comply with in the target market. This information gives an indication of the production depth local authorities require manufactures to realize. Moreover, production depth is decisive for car manufacturers since high production depth, which would comprise, for example, a body and paint shop, requires much higher investment than lower production depth, which would involve, for instance, only assembly processes. In terms of the product portfolio, it is of interest to gather information about which products competitors produce locally. On the one hand, the product range of competitors allows conclusions to be drawn about the complexity displayed by competitors’ local production facilities. On the other hand,

this information demonstrates the target market's most relevant segments and products. Additionally, it shows the competitors' high-volume models, since these models are typically produced locally. This is related to the fact that production activities imply high fixed costs since initial investment for setting up a production facility is high. These fixed costs can be starkly reduced per unit of production when production volume is high. Thus, local production typically begins with the model with the highest volume. This draws attention to an additional aspect of competitors' strategies that corporations should analyze, namely the relevance of determining whether competitors are producing locally to exclusively supply the target market or whether they are also exporting locally produced products to third markets. This is important since it tells corporations a lot about a target market's economic ties—whether the country is a member of economic communities, for instance, and whether free trade agreements are in place. It can be assumed that if competitors pursue export scenarios typically those markets, which can be accessed duty free will be supplied first. Second, this information seems relevant since it allows conclusions about the production volume, which of course will be a lot higher if several markets will be supplied. Accordingly production costs per unit could potentially decrease. Another important piece of information that should be gathered is the investment that competitors have been made in connection with local production activities, as this gives corporations an idea of competitors' local commitment. Conclusions can be drawn in regard to the competitors' production depth and production volume, which may be associated with exporting activities, as well as to its local value-added share. Competitors' local value-added share is also of great interest to a corporation in the process of investigation. It gives an indication of the local supplier industry since it demonstrates how much local value added would be economically feasible to achieve locally. Second, it provides an idea of the local value-added share needed to meet local requirements in terms of a specific share and its characteristics. A final and essential piece of information of great interest to corporations not yet present in the market is the connections their competitors have to the local network. Particularly, it is interesting to find out whether competitors are cooperating with local manufacturing partners. Again, this would give corporations investigating whether to implement local production activities an idea about possible market entry strategies. Information about local suppliers working with competitors would also give corporations in the process of investigation an overview of which suppliers are operating locally and which efficient economic partnerships could be possibly established.

In the theoretical context, the oligopolistic reaction theory and authors such as Knickerbocker (1973) introduced the idea of considering FDI a competitive instrument. As explained in more detail in Chapter 3.2.3, this theoretical approach suggests that making an investment, for example, setting up local production activities abroad, offers an investing competitor advantages over competitors that continue to supply the market via an export strategy. This can be traced to the fact that the level of market entry barriers is different for some competitors. Specifically, competitors that supply the market via local production strategies face lower entry barriers than those that export their products. This could indicate that revenues of a competitor following an export strategy decrease, which likely incentivizes this competitor to make a ‘follow-the-leader investment’ and thus adapt its strategy from an export towards a local production strategy (Weiss, 1996). In theoretical concepts, this has often been called the ‘bandwagon effect’, which can be viewed as the result of a competitive investment strategy (Rose & Ito, 2008, p. 866). This competitive behavior was indicated by Hotelling’s location theory in 1929, where he demonstrated that firms respond to their competitors’ actions and market strategies and thus try to position themselves as advantageously as these competitors (Hotelling, 1929).

Empirically, it has been proven that competing firms often follow each other to the same international markets (see for example Alcácer et al., 2015, p. 208; Gimeno et al., 2005). The literature thus widely agrees that ‘follow-the-leader investments’ are a decisive external influence within a corporation’s internationalization and market exploitation strategy. This is suggested to underline the significance of carrying out a detailed competitive analysis as part of the investigation process (Gann, 1996; Lymbersky, 2008).

The oligopolistic reaction theory puts forth a further explanatory factor in regard to why competing firms follow each other by proposing that imitating competitors reduces the risk of placing an investment abroad. On the one hand, risk is reduced since corporations have the possibility of monitoring whether market potential is realized and whether their competitors can exploit the market efficiently (Alcantara & Mitsuhashi, 2012, p. 337; Knickerbocker, 1973). On the other hand, corporations have the chance to observe whether local framework conditions and requirements allow competitors to pursue a successful local production strategy (Gelbuda et al., 2008; Howell, 2001). This is proposed to further underline the necessity of studying competitors’ local strategies. Finally, the oligopolistic reaction theory also proposes that imitation grants legitimacy to exploiting a potential market via local production activities.

Imitation also plays a prominent role in the timing strategies literature. As previously mentioned in Chapter 3.8.1, it has been argued that followers and thus corporations making an investment in a target market where a competitor, the pioneer, has already placed an investment, face lower market risk since market development can be monitored from a secure position and the competitor's performance can be observed. Followers also have the chance to profit from the market development already undertaken by the pioneer in terms of establishing suppliers and initiating governmental relations (Berger, 2005; Oelsnitz, 2000). Studying competitors' performance is thus vital to profit from competitors' experiences and expertise.

In addition, as mentioned in Chapter 3.5, Porter (1980) highlighted the importance of developing a corporate strategy that best positions a company within its industry. To do so, he advocated undertaking a detailed analysis of five forces, where competitive rivalry is one of these forces. This appropriately underlines the already developed theoretical significance of carrying out a detailed competitive analysis as part of a corporation's design of an internationalization strategy.

It is thus argued that competitors' activities decisively influence a corporation's internationalization and market exploitation strategy. The influencing factor 'competitors' local production activities' is hence proposed for consideration in the second step of the market exploitation process, the country analysis. The empirical study examines whether automotive experts who work with the internationalization process in their daily jobs classify this influencing factor as relevant within the market exploitation process. The study is thus meant to reveal whether the influencing factor 'competitors' local production activities' ought to be considered within the country analysis.

Drafting a comprehensive and holistic overview of competitors' local activities is a challenge to the strategic unit responsible for the internationalization strategy. Therefore, relevant information must be collected. Internally, this information likely does not exist so it must be gathered externally. Sources of information are similar to those listed in the section about local production activities: ministries of international trade and industry, economic development and investment promotion agencies, local automotive associations, and manufactures and suppliers themselves. Information about competitors can also be obtained by screening reliable journals and news agencies such as Bloomberg Business ([www.bloomberg.com/](http://www.bloomberg.com/)) or Reuters (<http://www.reuters.com/>). Again, information should be



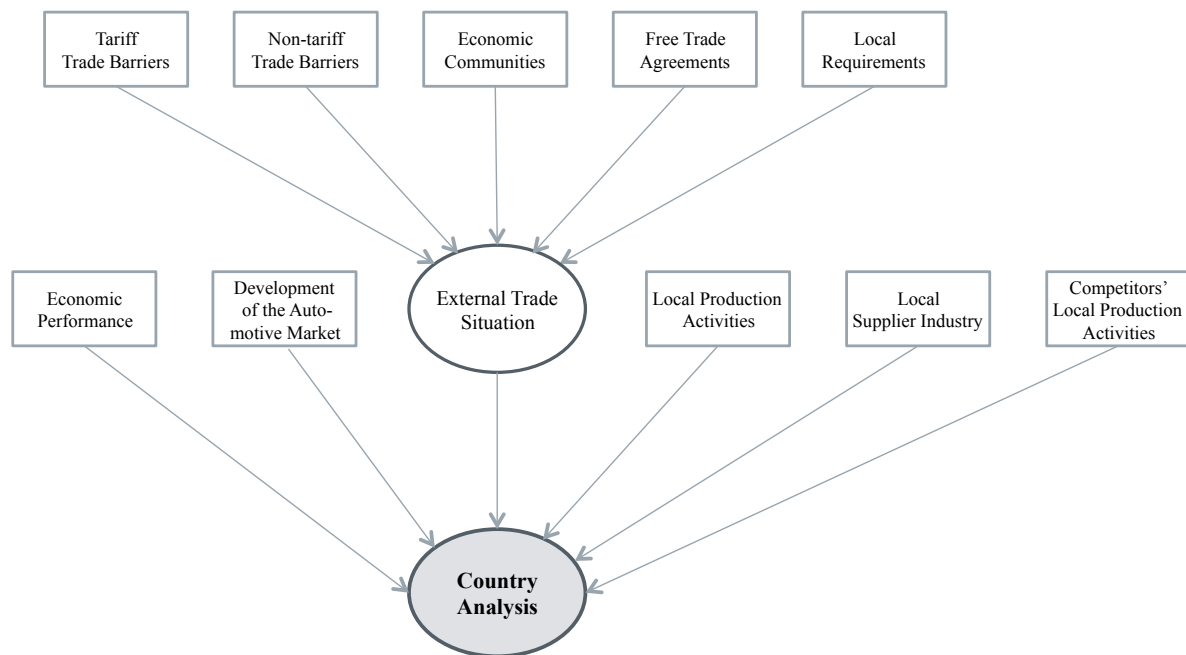
exchanged with the sales department in a regulated process that may need to be established. Since this department is starkly intertwined and continuously in exchange with the market, information about the competitors' local behavior may be transmitted in any case.

It is a challenge for the strategic unit to collect all relevant information so as to be able to prepare an inclusive overview of competitors' local production activities. It is time-intensive and requires human as well as financial resources, since conferences or branch meetings may need to be attended or research institutes temporarily involved. Further, only a limited amount of information may be available so some questions may remain unanswered. Theoretical concepts as well as empirical studies, however, have pointed out the extensive impact competitors' local production activities have on corporations' decision-making process in the context of internationalization and market exploitation strategies. Accordingly, it is seen as necessary for corporations to assess competitors' local production activities in the market exploitation process. Appropriately, the empirical study explores whether information about competitors' local production activities should be gathered and incorporated in the decision-making process in regard to where to produce locally in order to efficiently exploit international potential markets. Further, it investigates whether this information should be considered in the second process step of the market exploitation process, the country analysis.

Correspondingly, integrating and evaluating six influencing factors is suggested for the second phase of the market exploitation process, within which a country analysis ought to be carried out to disclose a comprehensive and holistic overview of local framework conditions. The factors 'economic performance', 'development of the automotive market', 'external trade situation', 'local production activities', 'local supplier industry', and 'competitors' local production activities' should be considered.

It is proposed that the factor 'external trade situation' should be analyzed in more detail to assess five sub-dimensions, namely 'tariff trade barriers', 'non-tariff trade barriers', 'economic communities', 'free trade agreements', and 'local requirements' (see figure 15).

*Figure 15: Phase Two - Country Analysis*



Source: Own figure.

Information on these aspects ought to be compiled transparently in a holistic report and thereafter presented to the corporation's top management. On this basis, it is suggested that top management should decide whether a particular market should be defined as one with potential to be exploited more adequately if production activities are carried out locally. If this is the case, it is proposed that top management should instruct the strategic unit to complete the next step of the market exploitation process, a detailed cross-departmental feasibility study. Contributing departments should be appointed to support the strategic unit in the implementation of this feasibility study.

### 5.2.2. Operationalization

The developed process model suggests that countries identified as potential markets in the first process step, the screening and identification phase, should be further analyzed in a second phase, where a country analysis is undertaken. The influencing factors 'economic performance', 'development of the automotive market', 'external trade situation', 'local production activities', 'local supplier industry', and 'competitors' local production activities' have been identified as influencing the second process step. It should be mentioned that the factor 'external trade situation' represents a construct comprised of the sub-dimensions 'tariff

trade barriers’, ‘non-tariff trade barriers’, ‘economic communities’, ‘free trade agreements’, and ‘local requirements’.

The empirical investigation aims to examine whether the above-mentioned developed construct items adequately determine the second phase of the decision-making process of a corporations’ internationalization and market exploitation strategy. By surveying experts, the relevance of the construct items to the construct is evaluated. This was accomplished by distributing a questionnaire with construct item-specific statements (see table 6). A construct item is categorized as relevant for explaining the construct if support of a construct item-specific statement by the questioned automotive experts is strong (Helm, 1997, p. 118 et seq. and 153 et seq.).

*Table 6: Operationalization Phase Two*

Short description of the construct item	Construct item-specific statement
<b>Economic Performance</b>	A country’s overall economic performance determines whether nations are classified as potential markets that require further analysis.
<b>Development of the Automotive Market</b>	The development of a country’s automotive industry significantly influences whether nations are classified as potential markets, which require further analysis.
<b>External Trade Situation</b>	
<b>Tariff Trade Barriers</b>	High tariff trade barriers, which raise the price of exporting fully built up vehicles, are a major influencing factor in regard to why local production activities should be taken into consideration and must be analyzed in detail.
<b>Non-tariff Trade Barriers</b>	High non-tariff trade barriers, which occur when importing fully assembled vehicles and thus increase the price of the export business, offer an incentive to produce locally and must be analyzed in detail.
<b>Economic Communities</b>	The membership of countries in economic communities indicates potential for local production activities since this may yield additional sales potential. Resulting implications must be analyzed in detail.
<b>Free Trade Agreements</b>	If a country has free trade agreements with third countries, this indicates potential for local production activities since this may yield additional sales potential. Resulting implications must be analyzed in detail.
<b>Local Requirements</b>	Market-specific requirements that corporations wishing to produce locally need to fulfill have an impact on whether an evaluation about local production activities should be initiated and need to be examined in detail.
<b>Local Production Activities</b>	It is relevant to gather information about the local production activities of a country’s automotive industry.
<b>Local Supplier Industry</b>	If local production activities require generating local value added, it is necessary to gather information about a country’s local supplier industry.
<b>Competitors’ Local Production Activities</b>	Competitors’ local production activities must be analyzed in detail.

Source: Own table.

The empirical investigation also aims to assess whether the construct ‘external trade situation’ has a significant impact on the construct ‘country analysis’. It is thus necessary to prove the following hypothesis.

*Hypothesis 4: The construct ‘external trade situation’ has a significant impact on the construct ‘country analysis’.*

### **5.3. Phase three: feasibility study**

#### **5.3.1. Conceptualization**

Academics who have studied the market selection process within internationalization strategies of corporations, such as Aharoni (1966, 1999) and Gann (1996), have suggested carrying out an ‘investigation process’ and a ‘detailed analysis’ within a second process step, which was explained in detail in Chapter 3.10. However, splitting this process into two separate process phases has been proposed. First, in the second step of the decision-making process of corporations’ internationalization and market exploitation strategies, conducting a country analysis is suggested to generate an inclusive overview of market-specific framework conditions. This is outlined in Chapter 5.2. If a country demonstrates potential to be exploited more adequately via local production activities, a cross-departmental feasibility study ought to be executed within a third process phase. In this phase, internal, firm-specific factors, which are another important dimension to consider, are the primary object of investigation since a feasibility study mainly assesses whether a corporation’s competences, concepts, processes, and resources empower it to implement economically feasible production activities abroad (Porter, 1991). Corporate features are thus introduced in detail for the first time. Finally, a completed feasibility study is propositioned to contain an implementation concept on the one hand. On the other hand, it must also include a profitability calculation, which is a financial assessment that clearly outlines whether production activity abroad would be economically viable. There is agreement on this point by scholars such as Gann (1996), who claimed that a profound analysis is imperative to outline whether concepts are practical and economically feasible.

It is thus proposed that a feasibility study ought to include cross-departmental concepts and a financial evaluation of how local production activities could be implemented in the target market. Therefore, concepts such as production, logistics, and local sourcing concepts need to

be developed and financially assessed. The feasibility study is thus suggested to be a conceptual as well as a financial analysis. Its results show whether a corporation can realize economically feasible local production activities within a target market. Since a feasibility study represents a holistic contemplation, its implementation requires significant resources. Human resources are necessary since employees of diverse departments, such as the production and logistics department, the sales department, the procurement department, the finance department, the quality department, and the research and development department must actively contribute to prepare a comprehensive feasibility study. Financial resources are also required since business trips to the target market must be made to visit potential local partners such as governmental officials, investors, and suppliers. Executing a feasibility study is thus a resource-intensive venture and should only be carried out if the potential for success is high. A thoughtful pre-selection of potential markets as well as a systematic country analysis are thus proposed as essential preceding steps to ensure that scarce resources will be employed only for feasibility studies where the prospect of success is high, namely that local production activities are economically viable and will allow corporations to exploit the potential of international markets. Accordingly, it is propositioned that a feasibility study should be undertaken in a third phase of the decision-making process of corporations' internationalization and market exploitation strategies. Influencing factors to consider in the feasibility study are compiled in the following. The factors' relevance is determined by the empirical study.

#### *Advantages based on local production activities*

It is suggested that an important initial influencing factor that requires consideration within a feasibility study is the financial advantages that local production activities imply. These financial advantages primarily occur since trade barriers such as tariffs or special levies can be circumvented or at least reduced. The following example can clarify this. If a European automobile manufacturer, for instance, is supplying the Thai market via an export strategy, duties of around 80% have to be paid when exporting an FBU to the Thai market (European Commission, 2015). This elevated duty considerably increases the price at which the automobile is offered in the Thai market. This distorts the competitive situation among corporations following an export strategy compared to those that are producing locally, since the latter do not have to pay duties and can thus offer their locally produced automobiles at much lower prices. Accordingly, if a corporation is carrying out a feasibility study to evaluate whether local production activities are economically feasible, it must evaluate how much duty

or special levy fees could be saved when adapting its strategy from an export to a local production strategy. However, it is not only the reduced customs duties or special charges that have to be taken into consideration. If corporations adapt their strategy from an export towards a local production strategy and can thus reduce or circumvent trade barriers, the target market's retail price can also be reduced. Following the logic of a price-demand function, a reduced retail price enables a corporation to increase its sales volume. Accordingly, based on adjusted price levels and sales volumes, prospective revenues need to be considered when conducting a feasibility study. However, corporations do not necessarily adjust prices when adapting their strategy from an export towards a local production strategy even though trade barriers such as tariffs or special taxes can be reduced or even avoided. Corporations may also decide to claim the advantage of more favorable tariff and/or non-tariff regulations and increase the corporation's profits.

It has already been explained that national governments incentivize foreign corporations to set up local production activities within their countries in order to promote technological upgrade. Tariff and non-tariff trade barriers are measures that incentivize foreign corporations to set up production facilities abroad, since locally producing corporations can reap financial benefits by circumventing these trade barriers. There are, however, further measures such as attractive property prices, tax holidays, or favorable funding terms that national governments may grant corporations to incentivize local production activities. These measures represent further advantages that local production activities could entail. It is the aim to develop a process for corporations to identify markets that require local production activities to be exploited effectively. These measures thereby play only a minor if not a negligible role since the advantages related to sales-motivated production activities abroad primarily arise from reduced trade barriers.

In the theoretical context, the location theory and authors such as Lösch (1940) have underlined the relevance that external economic indicators such as the existence of trade barriers have on corporations' internationalization and market exploitation strategies. Location theory, moreover, claims that implementing new production locations is about maximizing profits and benefits, since financial advantages can be attained by producing in target markets, for example, by circumventing or at least softening trade barriers. Tesch (1980) furthermore outlined that local framework conditions can yield location-specific advantages such as financial benefits, which have an immediate effect on a corporation's competitiveness and thus strongly influence a corporation's investment behavior. Jahrreiß

(1984) complemented the concept by integrating additional investment determinants, explicitly mentioning the relevance of governmental incentive schemes and market-specific variables such as the tariff and tax system. Finally, in his eclectic paradigm, Dunning (1977, 1993, 2000) strengthened the importance of location-specific advantages as an incentive for firms to make an investment abroad. The evasion of import barriers or the reduction of taxes are examples of location-specific advantages that yield financial advantages to investing corporations. In addition, within transaction cost theory, Teece (1981, 1986) and Hennart (1982) applied location factors such as trade barriers to demonstrate why corporations do not exclusively rely on export strategies and hence implement international production activities due to resulting financial advantages.

In the context of the monopolistic rent theory, which is primarily related to theoretical ideas of Hymer (1976), Kindleberger (1969), Johnson (1967), and Caves (1971), it has been shown that firms that are not producing in target markets are often at a disadvantage vis-à-vis firms that do produce locally, for example, as a consequence of discrimination due to governmental regulations. These theoretical implications clearly indicate that advantages arising due to the transfer of production significantly influence a corporation's decision-making process in regard to whether to produce abroad. Empirical evidence, which further underlines this notion, is presented in previous sub-chapters (see for example Buerki et al., 2014).

It is consequently claimed that financial advantages implied by local production activities in international markets are an important influencing factor that should be considered in a feasibility study, the third step of the decision-making process of corporations' internationalization and market exploitation strategies. The empirical study, which is described in the following, is meant to analyze whether the influencing factor 'advantages based on local production activities' can be confirmed as a major factor that requires consideration within a feasibility study.

It is proposed that the strategic unit should steer the feasibility study and coordinate the cross-departmental project team. Participants of this team, which ought to come from various departments, should provide input in form of information, concepts, and financial assessments to the entire project team and the project managers. Based on this input, a comprehensive feasibility study can be drafted and an economic assessment undertaken.

It has been shown that examining the advantages that local production activities imply as a first influencing factor of a feasibility study is relevant. Most commonly, local production

activities soften or even eliminate trade barriers and fees that corporations following an export strategy would have to pay when supplying the market. Detailed information about the specific amount of tariffs or special contributions must be gathered by the division, typically the finance department, which manages the corporation's international trade flow. Since this division commonly handles import and export proceedings as part of its daily business, information should be available. If information is not available, gathering it should not pose a major challenge. In cooperation with a controlling division, a financial assessment needs to be carried out. This financial assessment must clearly demonstrate how the amount of customs duties that would need to be paid when exporting FBUs, thus following an export strategy, versus sets of parts to produce an automobile locally within a target market, thus following a local production strategy. The tariff advantage, in this case, must be transparently depicted. Once the financial advantage is evaluated, a decision must be made, typically jointly by the sales and finance department, as to whether local prices should be reduced to increase the sales volume or whether local prices should remain unchanged to increase the profit contribution. Finally, an agreement about a price-volume scenario has to be reached, and the explicit financial advantage has to be evaluated and transparently communicated to the entire project team.

It has been demonstrated that the advantages implied by local production activities can be seen as a major influencing factor in the third process step, the feasibility study, of a corporation's market exploitation process. Different theoretical schools of thought have emphasized the importance of considering the financial advantages local production activities would yield as part of a corporation's internationalization process. Moreover, empirical studies have underlined that financial advantages that come along with local production activities, primarily due to tariff advantages and the elimination of non-tariff trade barriers, are of major importance to firms within the process of internationalization. Correspondingly, evaluating the financial advantages that local production activities imply as part of the feasibility study is proposed. Moreover it is claimed that the feasibility study ought to be seen as the third step of the decision-making process of corporations' internationalization and market exploitation strategies. Thus, this should be carried out only if a market has passed the first screening and identification phase and the second country analysis phase. The empirical study, which is described in the following, is meant to explore whether experts of the automotive industry, who deal with internationalization processes in their daily business routines, believe financial advantages based on local production activities are an important



influencing factor that should be considered in the third process phase, the feasibility study, of the decision-making process of corporations' internationalization and market exploitation strategies.

#### *Cost factors implied by local production activities*

Considering the financial advantages that local production activities imply as a first influencing factor in a feasibility study is suggested. However, implementing production activities abroad also leads to additional costs. These costs must, of course, also be considered in a feasibility study.

The first important cost factor that local production activities entail is production costs, since an investment in production facilities is required. Production lines must be set up and equipped, operating materials must be acquired, and maintenance groups such as the body shop, the paint shop, and the assembly hall must be prepared. For the financial assessment, which is an important result of a feasibility study, evaluation of the production costs a local production facility would entail is essential. It is also necessary to develop a production concept. For instance, the production depth has to be determined and which production steps are carried out by the corporation itself and which will be executed by external partners must be defined. Moreover, production processes, techniques, and methods need to be determined. Local requirements thereby demand consideration and often significantly affect the elaboration of production concepts.

A second significant cost factor suggested for consideration in the evaluation phase of local production activities is logistic costs. It has been emphasized that this research focuses on local production activities that corporations implement to exploit markets adequately. It is thus assumed that these markets cannot be exploited effectively by following an export strategy since, for example, high tariff or non-tariff trade barriers impede market access. Typically, it is thus not an entire factory, with all maintenance groups, that is established in the markets reflected on here. A pressing plant, for instance, is commonly not installed, since it requires a large investment and thus very high production volume to make installation economically feasible, which individual markets generally do not achieve. A paint shop also entails substantial investment and is thus typically realized only when production facilities are implemented due to market exploitation motives, when local requirements explicitly force manufacturers to do so. Consequently, certain sets of parts are delivered from the manufacturers' main plants to the production facilities in target markets. This leads to logistic costs. Typically, production facilities in emerging markets are supplied with pressed parts and

the body, which is often already painted. The motor and transmission are normally also sent to production facilities abroad, since local in-house production is difficult to realize profitably due to the comparably low volume that local production facilities produce compared to main plants, which produce global-scale volumes to supply a majority of international markets. Logistic costs primarily comprise packaging and transportation costs. A financial evaluation of these costs is suggested as important for preparing a holistic financial calculation about production activities abroad. It is also required to develop a logistic concept. Logistic routes have to be determined, packaging concepts must be fulfilled, and logistic partners must be evaluated.

Another cost factor proposed for consideration is localization costs that local production activities may entail. It was previously mentioned that national governments primarily impede access to their markets to incentivize foreign corporations to set up local business activities, with the aim of promoting the technological upgrade of the domestic economy. Often, national governments in this context require foreign corporations wishing to set up local production activities to cooperate with local industry. Foreign corporations are thus obliged, for instance, to source a specific share of local material, parts, or components. Realizing local sourcing activities induces costs that are proposed for consideration in the financial evaluation of a feasibility study. Sourcing local material can be cost-intensive, since the volume of locally sourced parts and components is typically lower when supplying only the local production activities than the volume when sourcing activities are undertaken for a corporation's global production volume. Since local suppliers must also invest in adapting their production facilities and items such as special tooling equipment to produce parts and components for car manufacturers, the unit costs for locally sourced parts are typically elevated. Another cost element entailed by local sourcing activities is the costs that occur within the research and development department. This department explicitly instructs local suppliers as to how components must be built and what characteristics they should have. Another item that enhances localization costs is quality costs that emerge when local material is sourced. This occurs when a corporation's quality department has to carry out a quality assurance procedure for every locally sourced component. It is thus suggested that the financial calculation that is one important outcome of a feasibility study necessarily considers localization costs. Nonetheless, it is not relevant to evaluate the factor's financial dimension exclusively. A local sourcing concept must also be determined. A detailed analysis of the local supplier industry is thereby compulsory to identify eligible suppliers and parts and components that could be sourced locally.

Another factor suggested for consideration in a feasibility study is ‘resources’, which includes financial as well as human resources. It is proposed that resources should be subdivided into three main sub-groups: personnel costs, travel expenses, and other costs, which comprise expenses for consultancy services, for instance. Personnel costs are a central sub-dimension to consider since the planning, implementation, and serial supervision of production activities abroad require personnel deployment. The logistics department, for example, has to draft a logistic concept in the planning phase. This requires the deployment of human resources. During the implementation phase, the logistics concept must be applied. Packaging concepts must be realized and cooperation with logistic partners such as transportation providers or shipping companies must be finalized. This again requires personnel deployment. Finally, the need for serial supervision also calls for personnel placement since the logistics process needs to be continuously planned, organized, monitored, and optimized. To draft, implement, and maintain logistics processes, human resources are hence compulsory. Human resources are cost-intensive and increase a corporation’s fixed costs. It is thus proposed as essential to consider this cost factor in a feasibility study. A second sub-dimension that needs to be considered in the context of resources is travel expenses. To plan, implement, and supervise production activities abroad, it is necessary to travel to the corresponding market. The procurement department, for example, needs to travel to the target market since it has to get in touch with local suppliers. Production facilities of local suppliers must be visited, negotiations must be held, and process and quality audits must be undertaken. Travel expenses, which comprise flight and hotel costs and subsistence expenses, are also cost-intensive and thus require consideration within a feasibility study. Finally, it is proposed that ‘other costs’ such as the commissioning of consultancy services, for instance, should be considered. For example, setting up a legal entity abroad requires in-depth knowledge about local tax requirements. Often, this country-specific detailed knowledge is purchased via local consultancies. It is proposed that such costs should be included in a feasibility study for a holistic financial evaluation that covers all costs that may arise.

In the theoretical context, the relevance of a corporation’s internal influencing factors on its internationalization strategy has been studied continuously. Tesch (1980), who is associated with location theory, was one of the first scholars to highlight the relevance that firm-specific influencing factors have in a corporation’s internationalization strategy. Porter (1991) also underlined the importance of incorporating firm-specific factors into corporations’ internationalization processes. Lymbersky (2008) explicitly mentioned the relevance of

evaluating costs related to market entry strategies, such as promoting market exploitation via the implementation of local production activities. For example, he included shipping and thus logistic costs. He also explicitly highlighted the relevance of the availability of resources. Helm (1997) moreover elaborated on the importance of internal factors. For instance, he has explicitly emphasized the relevance of past experiences as well as investments that have already been carried out in this field of business. This theoretical idea implies that corporations that have already carried out local production activities in international markets have created an efficient organization structure to do so and have an advantage when developing suitable production, logistic, and localization concepts and are thus more capable of realizing economically feasible local production activities. This underlines the relevance of firm-specific concepts and their economic viability. Ulrich (2014) moreover mentioned not only international experience but also product complexity as an important internal influencing factor in a corporation's market exploitation strategy. He argued that product complexity has an immediate effect on the feasibility of production concepts. It may determine specific production sequences and production depth, affect the implementation of logistic concepts and influence localization concepts since some parts cannot be separated from others. The theoretical statements thus underscore the relevance of these previously listed cost positions.

It is thus suggested that the conceptual implementation of production activities abroad and its financial implications should be assessed in the third step of the decision-making process of corporations' internationalization and market exploitation strategies, the feasibility study. The development of production, logistic, and localization concepts and estimation of respective costs are proposed. Moreover, it is argued that the provision of resources should be considered in a feasibility study. The empirical study examines whether these dimensions are to be seen as decisive and relevant to prepare a holistic feasibility study of local production activities.

As previously shown, the strategic unit, together with a cross-departmental team it is steering, carries out the feasibility study. Discipline-specific inputs such as production, logistics or localization concepts and evaluations, however, must come from specific subject areas. The organizational structure of corporations typically clusters these subject areas within departments. Most commonly corporations consist of a production and logistics department, a procurement department, a finance department, a sales and marketing department, a research and development department, a quality department, and a human resources department. For

example, the production department develops a production concept, including its financial evaluation. In terms of practical applicability, responsibilities are clearly assigned. Further, a relevant level of knowledge and expertise is expected. However, along with the subject-specific work, simultaneous cross-departmental project work is necessary when conducting a comprehensive feasibility study to ensure that important input variables from diverse departments are considered by all process partners for the conceptual development. For example, it is proposed that the project management or the international trade department should gather relevant information about local requirements that have to be fulfilled when producing locally to profit from local incentives. Local requirements may oblige foreign corporations wishing to produce locally to achieve a certain production depth. Respectively, there may be a requirement that a local production facility must contain, for instance, a body shop. This information must be circulated within the cross-departmental project team since it has immediate effects on the other departments' concepts, such as the production concept. Only if this information is exchanged the production department can draft a corresponding production concept that fulfills local production criteria. The same logic applies to the development of a logistics concept and its respective costs. The logistics department will primarily develop a logistics concept and perform a financial evaluation of the expected logistic costs. However, the logistics department requires information to do so, for example, information about the specific dismantling stage. The cross-departmental team must jointly determine the dismantling stage while at the same time meeting local requirements. Subsequently, transparent communication within the project team is proposed since it is seen as an important input variable, or the premise on which various concepts are based. Cross-departmental coordination is also essential for the preparation of a localization concept, since the international procurement department, the quality department, and the research and development department jointly develop this concept. In such a complex context, it is decisive that premises are clear so that consistent concepts can be developed. In terms of practical applicability, responsibilities are clearly assigned to the respective departments of corporations, which have discipline-specific knowledge and expertise. To come up with concepts of implementation, which include financial evaluations, resources are required. This includes personnel resources, since employees have to be made available to develop country-specific concepts, and financial resources, since, for example, business trips must be made. As previously mentioned, expenses such as travel costs arise within the procurement and quality department, since process and quality audits of local suppliers have to be conducted. It is proposed that it should be the strategic unit's task to compile the resource demands of all

departments involved in the feasibility study that will implement and supervise production activities abroad. The personnel demand of the respective departments must be requested and travel must be planned. These requirements should be compiled by the strategic unit. Other expenses such as the commissioning of consultancy services ought to be considered as well. All of these cost factors are suggested to be consolidated and integrated as resource requirements in the feasibility study.

A further important aspect in terms of practical applicability, which needs to be considered explicitly when conducting a holistic feasibility study, is the implementation of a cross-departmental project team. It is the strategic unit's task to set up and manage such a team and to ensure a transparent flow of information.

It has been shown that the implementation of local production activities requires procedural as well financial concept development. Correspondingly, it is suggested that production, logistics, and localization concepts be drafted and resource requirements be conflated. These concepts and their financial implications require consideration in the third process phase of the decision-making process of corporations' internationalization and market exploitation strategies, the feasibility study. Theoretical concepts have already outlined the importance of incorporating internal firm-specific influencing factors. Explicitly, the relevance of considering costs induced by market exploitation strategies has been determined. It is thus suggested that these concepts and their financial implications should be integrated within the feasibility study. The empirical study subsequently examines whether experts of the automotive industry classify such concepts and their financial evaluation as relevant influencing factors that should be considered in the third process phase of the decision-making process of corporations' internationalization and market exploitation strategies, the feasibility study.

Another aspect that requires consideration in the feasibility study is transaction costs. External transaction costs in the context of internationalization and market exploitation strategies of corporations can be understood as costs that include the time and expenses of negotiating, coordinating, cooperating, leading, and controlling external partners such as suppliers, dealers, and contract manufacturers. Moreover, external transaction costs comprise the consequences of opportunistic behavior of external partners as well the costs of trying to prevent it (see for example Meyer, 2000, p. 77 et seq.). Internationalization activities also evoke internal transaction costs. Implementing production activities abroad requires, for

example, the international assignment of a corporation's employees. Particularly when international production activities will be implemented in countries with a low quality of life such as Nigeria, where the security situation is unstable, the motivation of employees to work there decreases considerably. Their overall motivation declines, which increases a corporation's transaction costs. It is thus important to consider such cost positions to draft a holistic analysis of production activities abroad.

In the theoretical context, transaction costs were introduced first in 1937 by Coase, who developed the eponymous transaction cost theory. This theoretical approach, which is analyzed in detail in Chapter 3.4.1, integrates notions of behavioral science into decision theory. Behavioral patterns of economic actors are thus considered in the transaction cost concept. The approach underlines that transaction costs should be minimized when carrying out business activities. Picot (1982) differentiated four types of transaction costs that arise when carrying out business activities with transaction partners: initiation, agreement, adjustment, and control costs. These theoretical ideas strengthen the relevance that transaction costs have within the internationalization processes of corporations.

The internalization theory, which can primarily be traced back to Buckley and Casson (1976), also emphasizes the relevance that transaction costs play when carrying out international business activities. This theoretical strand is explained in more detail in Chapter 3.4.2. This theoretical approach also highlights the transaction costs that arise when carrying out business activities with external partners. In particular, cost-intensive transaction costs, which can be traced back to the negotiation processes with external partners, are accentuated. In addition, it highlights that transaction costs that arise due to ascending internal communication and administrative costs should be considered. These well-established theoretical concepts thus strengthen the idea of considering transaction costs in the decision-making process of corporations' internationalization and market exploitation strategies.

Empirical studies that strengthen the relevance of transaction costs for corporations' internationalization strategies have also been conducted. Buckley and Casson (1998), for instance, demonstrated that transaction costs play a significant role in a corporation's market entry strategy and thus decisively determine a corporation's market exploitation strategy.

It is accordingly proposed that transaction costs that occur in the course of implementing production activities abroad need to be taken into account in a feasibility study, the third phase of the decision-making process of corporations' internationalization and market

exploitation strategies. The empirical investigation thus examines whether transaction costs should be considered as an influencing factor in the feasibility study.

Within the theory section, it was shown that the transaction cost and internalization approach has been criticized intensively in an academic context for its lack of practical applicability. A method of measuring and adequately evaluating transaction costs has not been developed (Röderstein, 2009, p. 50 et seq.). Therefore, it is very difficult for practitioners to incorporate transaction costs in their considerations. Transaction costs can thus be estimated only as part of a feasibility study. External transaction costs, which are costs that arise when setting up relationships with external partners such as suppliers, dealers, and contract manufacturers, can hence only be assessed based on experience. Transaction costs that arise when setting up partnerships with local suppliers ought to be evaluated by the international procurement department. Reference values of other countries and projects are suggested to be used as guidelines to do so. The sales department most commonly gathers experience-based knowledge about transaction costs that emerge when establishing partnerships with dealers and importers, so an estimation based on these reference values should be possible. The strategic unit, which likely already carries out projects involving international production activities abroad, may have knowledge of reference values that are useful for establishing partnerships with contract manufacturers, for instance. Moreover, information about transaction costs that emerge in foreign countries are commonly exchanged among competitors and other market participants at branch meetings, for example. It is advisable to engage also in an internal dialogue about internal transaction costs within the corporation at an early stage. For example, employees who need to go abroad for a period to implement international production activities should be involved and informed during an early phase. To avoid increases in a corporation's transaction costs, the willingness of employees to work abroad for a period should be ensured. Nonetheless, it is proposed that conducting a financial assessment of transaction costs remains a critical issue. The use of reference values makes it possible to anticipate arising transaction costs more adequately. Corporations may, however, decide not to include these transaction costs in the financial assessment of the feasibility study and instead deal with these separately as opportunity and risk aspects.

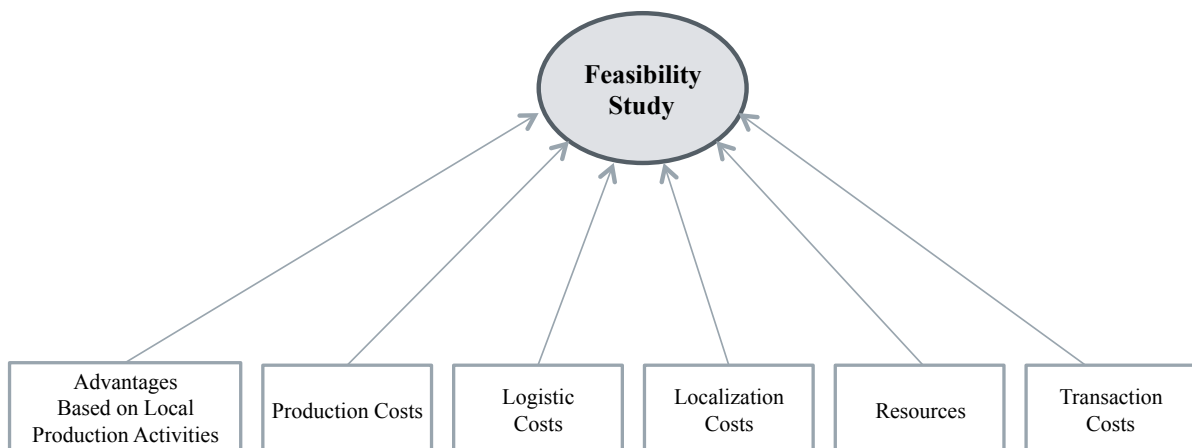
It has been shown that transaction costs could constitute an influencing factor that requires consideration in a corporation's feasibility study on whether to set up local production activities abroad. Theoretical concepts, namely the transaction cost theory and internalization



theory, as well as empirical findings have been adduced, which underline the relevance of this cost factor. Correspondingly, it is recommended that transaction costs be considered as an influencing factor within the feasibility study, a corporation's third process step on the decision path of its internationalization and market exploitation strategy. The empirical study carried out examines whether experts of the automotive industry attribute sufficient relevance to transaction costs to incorporate them as an essential influencing factor within the third process phase, the feasibility study, of the decision-making process of corporations' internationalization and market exploitation strategies.

Consequently, carrying out a cross-departmental conceptual and financial feasibility study is proposed be the third step of the decision-making process of corporations' internationalization and market exploitation strategies. It has been argued that it is essential to evaluate the financial advantage that local production activities would entail. Commonly, the financial advantage is related to reduced duties since a local production strategy typically enables the circumvention of trade barriers. However, the financial advantage must be set against the costs that production activities would entail. Production, logistics, and localization costs as well as resource requirements have been identified as central cost drivers. Additionally, the consideration of transaction costs has been shown as decisive (see figure 16). Besides a financial evaluation of the feasibility of production activities abroad, it is also vital to examine conceptual feasibility. Therefore, holistic concept development is proposed. Subject-specific sub-concepts, such as production, logistics, and localization concepts, have to be drafted. Regular coordination rounds are required to ensure consistency and dovetail sub-concepts, which should comprise one all-encompassing concept in regard to how to realize production activities abroad.

Figure 16: Phase Three - Feasibility Study



Source: Own figure.

The feasibility study is thus a compendium of different subject-specific sub-concepts, which are connected and constitute an all-encompassing cross-departmental conceptual proposal of how to realize production activities abroad. The feasibility study is moreover proposed to contain a financial evaluation, which explicitly states the profit contribution of production activities abroad as well as an opportunity/risk assessment. It is suggested to present the overall result of the feasibility study, which encompasses a conceptual and financial assessment to a corporation's executive board so it can decide whether local production activities should be realized. Typically, the highest managerial level of a corporation, the executive board, is suggested for such a decision since exploiting new markets via local production activities is a far-reaching decision that requires company-wide commitment and entails deployment of significant resources.

### 5.3.2. Operationalization

The conceptualized model claims that countries still classified after the implementation of the second process step as markets with the potential to be exploited more adequately if local production activities were in place require detailed analysis in the third process step. During this phase, a feasibility study should be undertaken that primarily considers company internal aspects in depth. Six influencing factors have been identified as important for this third process step: 'advantages based on local production activities', 'production costs', 'logistic costs', 'localization costs', 'resources', and 'transaction costs' (see figure 16).

The empirical assessment aims to evaluate whether the listed construct items are decisive for explaining the construct ‘feasibility’ in the third process step of the decision-making process model of corporations’ internationalization and market exploitation strategies. Therefore, experts were surveyed to evaluate the effective relevance of the construct items in determining the construct. A questionnaire distributed to experts contained construct item-specific statements (see table 7). High approval ratings of these statements indicate the importance automotive experts place on these specific construct items to explain the construct (Helm, 1997, p. 118 et seq. and 153 et seq.).

*Table 7: Operationalization Phase Three*

Short description of the construct item	Construct item-specific statement
<b>Advantages Based on Local Production Activities</b>	The implementation of production activities abroad is significantly influenced by advantages that local production activities would yield.
<b>Production Costs</b>	Production costs, which production activities abroad would entail, considerably impact the profitability of local production activities and thus decisively influence the implementation of production activities abroad
<b>Logistic Costs</b>	Logistic costs represent an important cost factor, which notably influences the viability and thus the implementation of production activities abroad.
<b>Localization Costs</b>	Localization costs, which emerge through local sourcing or assembly activities, constitute an important cost position within a feasibility study of production activities abroad.
<b>Resources</b>	The implementation of production activities abroad requires personnel as well as financial resources, which represent an important cost factor within a feasibility study.
<b>Transaction Costs</b>	Transaction costs, which can be realized externally, due to an increased need for coordination, or internally, due to decreased motivation of employees, play an important role in a feasibility study.

Source: Own table.

## 5.4. Phase four: decision

### *Conceptualization*

Academics studying the decision-making process of corporations’ internationalization strategies, such as Aharoni (1966, 1999) and Gann (1996), have proposed that a final decision about adaptation of a market exploitation strategy should be made after a process of investigation during which the implications of such an adaptation are evaluated. Gann emphasized the importance of undertaking a detailed analysis, which ought to result in clear financial indicators, so that management can decide whether to adapt market exploitation strategies in respective markets. Chapter 3.10 elaborates upon this in more detail.

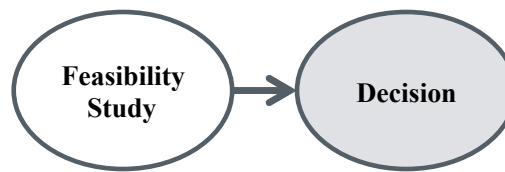
It is thus suggested that the result of a feasibility study, which includes a conceptual as well as a financial assessment of local production activities in a specific target market, should be

presented to a corporation's executive board. It is moreover proposed that management must then make a final decision about whether to realize production activities abroad. Financial indicators such as the profit contribution that local production activities would entail thereby play a prominent role. If the financial result is positive, thus if production activities abroad would increase the corporation's profits, it is likely that the executive board will approve the implementation of local production activities. It is also possible, however, that the board will decide to implement production activities abroad even though the profit contribution would be negative. In such a case, strategic motives typically induce the executive board to advocate for the implementation of local production activities in international markets. Another important aspect should also be considered in the final step of the decision-making process. It has been shown that realizing local production activities in international markets requires a deployment of personnel as well as financial resources. Even when the profit contribution of local production activities would be positive, the executive board has to decide whether the corporation is willing and able to make the required resources available. Therefore, the prioritization of impending projects is suggested, since a corporation cannot simultaneously implement all projects, however profitable and reasonable. Commonly, prioritized projects either originate from a corporation's strategic field of action and/or provide the greatest contribution to a corporation's revenues.

In the end, it is argued that the executive board has to reach a final decision about whether local production activities ought to be implemented in a specific target market. If the board confirms implementing production activities abroad, the strategic unit ought to be assigned to coordinate and take responsibility for the implementation phase. Contributing departments must also be appointed to support the implementation phase adequately. At the same time, the provision of required personnel as well as financial resources is necessary.

The executive board's final decision represents the end of the decision-making process of corporations' internationalization and market exploitation strategies. It completes the investigation phase, during which it was evaluated whether sales-driven production activities abroad enable corporations to exploit international markets more effectively. The fourth phase of the process model, where a final decision about the implementation of sales-driven production activities abroad is made, thus represents the last process phase of the decision-making process of corporations' internationalization and market exploitation strategies (see figure 17).

Figure 17: Phase Four - Decision



Source: Own figure.

### 5.5. Review: conceptualizing and operationalizing the conceptual model

It is thus appropriately proposed to structure the decision-making process of corporations' internationalization and market exploitation strategies in four stages. The first phase is defined as the screening and identification phase. It is proposed that major influencing factors that primarily determine the outcome of the first stage are 'market potential', 'tariff trade barriers', 'non-tariff trade barriers', 'free trade agreements', and 'local requirements'. In this first stage, international markets that demonstrate potential for more effective exploitation with the implementation of local production facilities ought to be identified. These markets are further examined in the following process step.

The empirical investigation aims to assess whether potential markets identified in the first phase, the screening and identification phase, should be assessed in more detail in the second phase, the country analysis. It is thus necessary to verify the following hypothesis.

*Hypothesis 1: Countries identified during the first phase, the screening and identification phase, of the decision-making process of corporations' internationalization and market exploitation strategies as markets with the potential to be exploited more adequately when local production facilities are in place require further analysis in a second process phase, the country analysis.*

In the second step, it is suggested that a holistic country analysis should be conducted, which is determined by the following aspects: 'economic performance', 'development of the automotive market', 'external trade situation', 'local production activities', 'local supplier industry', and 'competitors' local production activities'. Based on this comprehensive country analysis, a recommendation for action can be made in regard to whether a specific market has the potential to be exploited more effectively with local production activities. If this is the case, it is argued that these markets require further analysis.

The empirical assessment thus aims to examine whether a feasibility study of production activities in potential markets should be undertaken if, in the second process step, the country analysis, markets demonstrate potential for more effective exploitation if local production activities were implemented. It is thus essential to prove the following hypothesis.

*Hypothesis 2: Countries that show potential in the second phase, the country analysis, to be exploited more effectively when local production activities are implemented require further analysis in the third phase of the decision-making process of corporations' internationalization and market exploitation strategies, the feasibility study.*

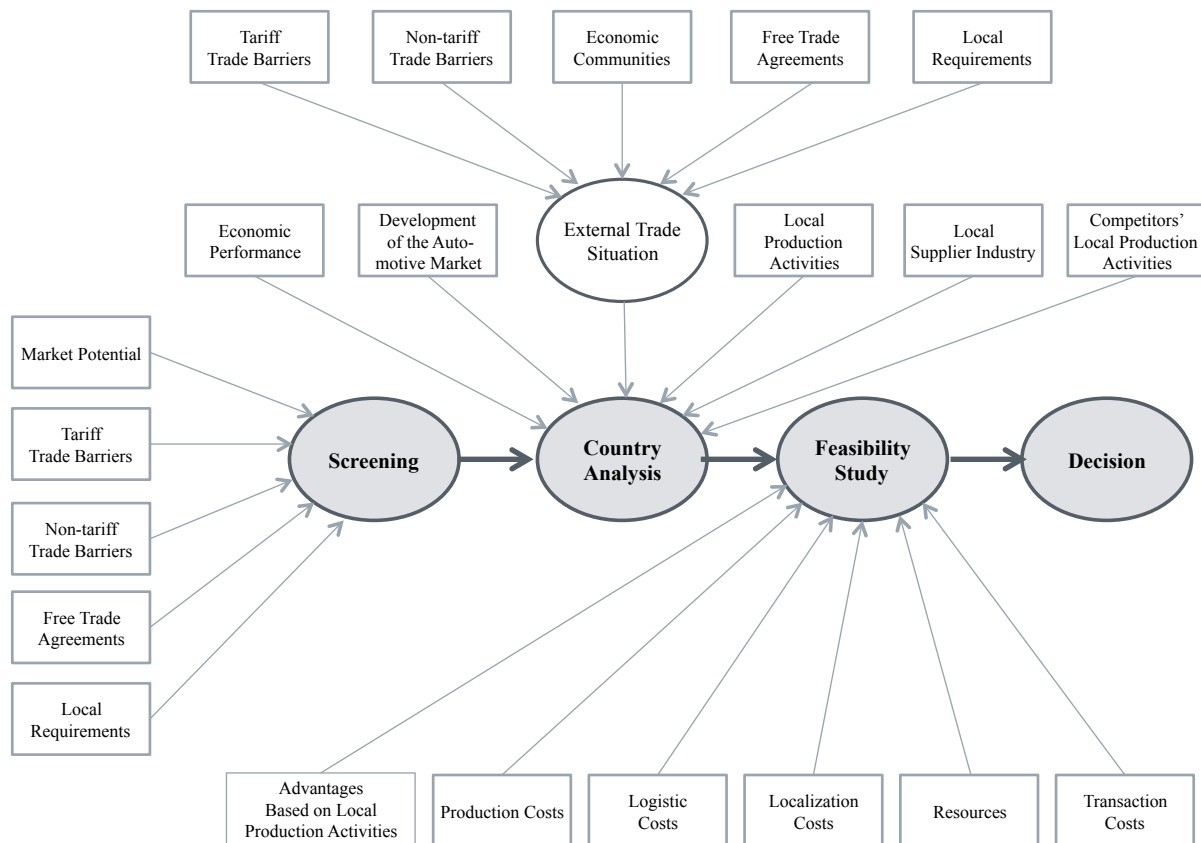
In a third step of the decision-making process of corporations' internationalization and market exploitation strategies, it is recommended to carry out a cross-departmental feasibility study, which comprises a conceptual and financial assessment of production activities abroad. Aspects suggested for consideration in such a feasibility study are 'advantages based on local production activities', 'production costs', 'logistic costs', 'localization costs', 'resources', and 'transaction costs'.

The empirical study is intended to analyze whether countries identified in the third phase, the feasibility study as demonstrating potential to be exploited more adequately by implementing local production activities should be evaluated during the last phase of the decision-making process of corporations' internationalization and market exploitation strategies. The following hypothesis must thus be tested.

*Hypothesis 3: Countries, which after the completion of the third phase, the feasibility study, demonstrate potential to be exploited more adequately by implementing feasible local production activities, should be assessed in the fourth and final phase of the decision-making process of corporations' internationalization and market exploitation strategies, the decision stage.*

Finally, in a fourth and final process step, a decision is made about whether a specific international market ought to be exploited by implementing local production activities based on the results of the feasibility study. With this step, the decision-making process of corporations' internationalization and market exploitation strategies is completed (see figure 18).

Figure 18: Decision-making process model



Source: Own figure.

The following discusses an empirical study that was conducted to evaluate the applicability of the conceptual model. The empirical evaluation has the objective of analyzing whether it is reasonable to structure the decision-making process of corporations' internationalization and market exploitation strategies in the proposed four process steps. Additionally, it has the aim of determining relevant influencing factors and allocating these to the respective phases of the decision-making process of corporations' internationalization and market exploitation strategies.

The empirical investigation does not, however, have the aim of forcing respondents to rank different influencing factors, nor does it introduce financial figures and value limitations. This has been done intentionally, as it is the objective of this research to develop a generally applicable decision-making process for corporations' internationalization and market exploitation strategies. Primarily, the research is aimed at developing a process to support firms to identify and select markets that require local production activities to be exploited adequately. It has been argued that local requirements are vital for corporations to decide on

adequate market exploitation strategies. These local requirements, however, have varying influence on the relevance of influencing factors as well as on the value limitations of corresponding financial figures. The following annotations demonstrate this more clearly.

National governments, as previously explained, often incentivize foreign car manufactures to produce locally. At the same time, however, they often oblige foreign manufacturers to fulfill local requirements, such as adherence to a specific production depth or the achievement of a certain share of local value added. The required production depth, for instance, can range from minor assembly processes, which require only limited investment to more complex assembly processes, which require a moderate investment. Requirements for the implementation of a paint and/or body shop, for example, would be investment intensive. Required local value-added shares, for example, can also range from none to a high percentage. The size of the requested local value-added share again determines the necessary investment. Investments and typically arising costs of production activities are distributed to the production volume. This implies that if a high production depth and/or a high level of local value added is required, the production volume, which has to be consistent with a market's sales potential, must be comparably high to make local production activities economically feasible. On the other hand, production activities that do not imply significant investment due to a low production depth or no local value-added requirements, for example, could turn out to be economically feasible with a much lower production volume and could thus also be profitable in smaller markets. This demonstrates that there are no generally applicable value limitations, since influencing factors depend very much on country-specific regulations. For instance, there is no approximate sales potential that markets would need to demonstrate to be classified as markets with potential for realizing sales-motivated local production activities. Neither is there a particular sum of investment that should not be exceeded to ensure economically feasible production activities abroad. This also applies to the financial advantages local production activities imply, which primarily arise due to duty and tax savings. If the cost positions that accompany the implementation of production activities abroad are low, which may be the case if the required production depth is low and no local value-added requirements exist, the financial advantage that can be attained due to customs and tax savings must not be as high as it would comparably be the case if a significant investment needs to be made due to strict local requirements.

The relevance of influencing factors likewise varies. If a target market under investigation requires car manufacturers to achieve, for example, a high local value-added share, the influencing factors 'local supplier industry' and 'localization costs' are proposed to play a



more prominent role for the assessment compared to a scenario where a target market under investigation not require manufacturers to achieve any local value-added share. Thus, a general ranking of indicators is not reasonable since market-specific requirements need to be considered.

## **6. Empirical analysis and evaluation of the conceptual model**

This section begins with providing information about the method of investigation applied for the empirical assessment. It briefly describes how information was gathered to examine the different phases and influencing factors of the decision-making process model. The following shows how and with whom the empirical investigation, which was based on a questionnaire, was undertaken. It demonstrates how the questionnaire was drafted and how pre-tests and the main investigation were executed. Finally, a short data analysis is carried out. In the following sub-sections, the results of the empirical study are presented and discussed. In Chapter 6.2, the empirical results of the measurement models are assessed and examined. In Chapter 6.3, the empirical outcome of the structural model is presented and discussed. Finally, in Chapter 6.4, the overall conceptual model is evaluated (Röderstein, 2009, p. 172).

### **6.1. Method of investigation**

#### **6.1.1. Exploratory discussions**

It is the aim of this research to develop a decision-making process model for corporations' internationalization and market exploitation strategies, which is theory-based and at the same time provides a high level of practical relevance. Therefore, the research began with the initiation of preliminary talks and discussions with experts of the automotive industry who deal with internationalization processes in their daily business routines. Intense contact was established with a German automotive corporation's strategic unit tasked with promoting the corporation's internationalization and market exploitation strategies. The obtained knowledge and empirical value complements the knowledge and information about internationalization and market exploitation processes that was gathered via academic publications and publications of international organizations, national political authorities, industry associations, and corporations (Röderstein, 2009, p. 172 et seq.). Based on this attained knowledge, a conceptual model was developed.

### 6.1.2. Creating the questionnaire and undertaking the survey

Based on the gained practical insights and the theoretical knowledge that was gathered through an extensive literature analysis, a conceptual decision-making process model for corporations' internationalization and market exploitation strategies was drafted. This model is presented in detail in Chapter 5. Four process phases with appropriate influencing factors were developed.

To examine the validity of the developed decision-making process model for corporations' internationalization and market exploitation strategies, an empirical study was conducted. A paper-based questionnaire was distributed to experts of the automotive industry, who continuously deal with internationalization processes in their daily business routines. The empirical investigation was undertaken within a German automotive group. Experts of the group's diverse brands were questioned.

For reasons of confidentiality, the automotive group cannot be named. The demand for confidentiality must be complied with because otherwise an expert survey would not have been possible. Since it is explicitly the aim of the research to develop a process model with high practical relevance to effectively generate added value for business realities, it was imperative to interview key informants.

#### *Composition of the sample*

The composition of the sample was intentionally chosen to empirically investigate the research question of how corporations can identify international markets that require local production activities to be exploited effectively, so as to empower corporations to remain competitive in the globalizing world economy.

First, it is reasonable to undertake the survey within the automotive industry, since this industry sector already contains many automotive corporations that are operating internationally. It can thus be expected that adequate exploitation of international markets is relevant to automotive corporations. Consequently, it can also be expected that knowledge and expertise about internationalization and market exploitation strategies has already been gathered and can be exploited by surveying experts of the automotive industry. In addition, it is reasonable to undertake the survey in this sector since prospectively, this industry branch will need to internationalize even further. While economic powers are shifting and international demand patterns are noticeably altering, which is demonstrated in detail in the second chapter, automobile companies have already begun to exploit new markets and will

potentially need to promote market exploitation more intensively to remain competitive in the international automotive business (Essays UK, 2013; Sturgeon, Memedovic, Biesebroeck & Gereffi, 2009). Implementing adequate internationalization and market exploitation strategies is thus of high importance to automotive corporations.

Second, the German automotive group involved has continuously been among the top three of the world's largest automotive groups in terms of turnover and can thus be classified as an important player within the automotive industry. Accordingly, it can be assumed that an empirical investigation drawing upon expert opinions of this automotive group can provide interesting insights in the context of internationalization and can provide an indication of internationalization and market exploitation strategies (Kedron & Bagchi-Sen, 2011).

The selected automotive group is also well suited for the empirical investigation since it has been engaged in internationalization activities driven by the motive of market exploitation, with the implementation of several local production activities in recent years. Moreover, the group has publicly announced that it plans to promote internationalization and market exploitation strategies intensively.

Moreover, this automotive group was chosen for interrogation since key informants could be identified and contacted to ask for their participation in the survey. The key informants of this research are experts who, in their daily business routines, work on internationalization and market exploitation strategies. Professionals working directly for the group as well as professionals working for five brands of the group were identified and asked to participate in the survey. Questioning specialists of only one group, however, makes the sample prone to bias since corporate cultural effects may influence the respondents' evaluation of internationalization activities (Buerki et al., 2014; Dehnen, 2012). It should be considered that while the consulted experts work for different brands of the same group, the brands are independent and autonomously make their own respective entrepreneurial decisions in a general context, but more importantly, also in the context of internationalization and market exploitation. Each brand thus has unique organizational structures and decision paths, in general as well as in the explicit context of internationalization and market exploitation (Diehlmann & Häcker, 2011; Meffert, Burmann & Kirchgeorg, 2009). In addition, perceptions of the brands are extremely diverse since they range from commercial vehicle manufacturers and manufacturers of buses and trucks to high-volume and premium automobile manufacturers (Meffert et al., 2009). Therefore, although the brands belong to a single automotive group, it can be assumed that a certain level of representativeness is

ensured. Further, it was seen as more important to ask key informants on internationalization and market exploitation strategies that were identified within this particular German automotive group to participate in the empirical investigation to augment the quality of the data and its respective derivations than the potential bias introduced to the sample (Buerki et al., 2014; Dehnen, 2012).

Third, the composition of the sample made it possible to identify, contact, and persuade key informants to complete the questionnaire, which was particularly important since it is the explicit aim of this research to ensure practical relevance and applicability. For this purpose, interrogating key informants who are experts that deal with internationalization and market exploitation activities in their daily business routines is imperative. These key informants have specialized knowledge and are well informed about the structure and design of a corporation's internationalization process since it is part of their daily business routines to develop internationalization and market exploitation strategies. Therefore, these key informants have more information about the specific research question than other professionals working in the automotive industry. The exclusive interrogation of these experts augments the quality of the collected data and is thus a particularly valuable source of information to a researcher aiming to examine corporations' internationalization and market exploitation activities (Houston & Sudman, 1975; Maksimovic et al., 2014; Mitchell, 1994).

Via exploratory discussions, relevant experts of the selected German automotive group were identified and subsequently questioned. Identifying, contacting, and convincing these key informants to contribute by completing the survey is very valuable to examining the underlying research question. Since the exchange was particularly pronounced with one of the group's premium brands, most experts that were identified and then participated were part of this automotive company. However, relevant experts who work directly for the group or for other brands within the group were also identified, contacted, and questioned. The share of the participating experts not working for one of the group's premium brands represents more than 33% of the reference group.

However, approaching only relevant experts to participate in the empirical study so as not to falsify outcomes and to achieve results with practical relevance for corporations' internationalization and market exploitation strategies limits the sample size. This can be explained by the fact that only a few departments, which are staffed with a limited number of experts, contribute to corporations' internationalization and market exploitation activities, particularly in the context of sales-driven local production activities.

The following example of one of the group's premium brands demonstrates this transparently. Within this corporation, one strategic department coordinates the process of internationalization and market exploitation in the context of sales-driven international production activities. Experts working for this department, which is staffed with approximately 30 employees, qualify to be survey participants. Other departments such as the production and logistics department, the procurement department, the quality department, the research and development, and the finance department only support internationalization and market exploitation activities with a limited amount of human resources. In the specific example of one of the group's premium brands, up to three experts are allocated to supporting investigations of sales-driven production activities abroad from the quality department, up to five experts are allocated from the procurement and research and development departments and the controlling business unit, which belongs to the finance department. The production and logistics department as well as the business unit that deal with international tax and customs regulations, which classically belong to the finance department, typically assign up to 10 experts to support sales-driven international production activities. In the sales department, the sales and regional managers support evaluations of sales-driven international production activities. Since these activities are only relevant for markets that show foreclosure tendencies, only a limited number of countries and regions and thus only a limited number of experts from the sales department support sales-driven international production activities and thus have expertise in this field. In the example of the premium automotive corporation, not more than 12 sales experts qualified as relevant survey participants.

It is also important to interrogate experts with different professional backgrounds. Interviewees of diverse departments such as sales, production and logistics, finance, procurement, and research and development as well as strategic entities were surveyed. Since it is the aim of this research to support corporations in the process of internationalization and market exploitation to identify markets that could be exploited more effectively by implementing local production activities, it is particularly important to establish a comprehensive process model. Therefore, it was imperative to survey experts with different professional backgrounds since it is expected that they weigh influencing factors differently (Müller & Bostrom, 2016). Whereas experts of the procurement department may tend to classify localization costs as an imperative factor to consider in a feasibility study of local production activities, production experts may, on the other hand, tend to underline the importance of production costs. Thus, to establish an all-encompassing process model, it is

vital to survey experts with diverse professional backgrounds to attain a balanced evaluation that considers varied perspectives.

Further, it is important to involve different hierarchical levels, ranging from the top management level to non-managerial employees. The underlying reason for this is that employees from distinct hierarchical levels might classify aspects of internationalization and market exploitation differently (Oesterle, Elosge & Elosge, 2016). Whereas top managers may classify the financial advantage local production activities entail as one of the most important influencing factors in the decision-making process of corporations' internationalization and market exploitation strategies, employees who implement these production activities on the ground at a later stage may classify transaction costs, which inter alia reflect the quality of life in the potential production location, as one of the most important factors. Thus, it is imperative to undertake a cross-hierarchical investigation with employees from levels that display diverging interests to attain a balanced and comprehensive process model.

#### *Structuring the questionnaire*

The objective is to assess the meaningfulness of the developed decision-making process model by undertaking an empirical investigation based on a questionnaire. On the one hand, the aim is to investigate whether the process is sensibly subdivided into four different process steps. On the other hand, the aim is to evaluate whether the established influencing factors decisively determine the respective phases of the decision-making process of a corporation's internationalization and market exploitation strategy.

Correspondingly, via the questionnaire it is intended to assess whether the established phase-specific influencing variables are decisive factors that determine their respective process steps within the decision-making process model of corporations' internationalization and market exploitation strategies. The participating experts thus evaluate how relevant the respective influencing factors, the construct items, are to determining the respective process phase, the construct. To do so, construct item-specific statements were included in the questionnaire. High approval of the construct item-specific statement indicates the importance experts place on specific construct items to explain the construct. Respondents answered the questions by placing a check mark in the appropriate space on a typical five-point Likert scale with the categories (1) strongly disagree, (2) disagree, (3) neither agree nor disagree, (4) agree, and (5) strongly agree. All points of the scale were explicitly been described in verbal, qualitative

terms, since research has shown that this improves an empirical investigation's reliability and validity (see appendix 1) (Krosnick & Fabrigar, 1997). Adjectives used represent a direct and clear response to the question, which further improves the questionnaire's design (Krosnick & Presser, 2010, p. 275 et seq.).

Undertaking empirical investigations based on questionnaires, however, generally pose the risk of attaining distorted responses since fatigue effects negatively influence survey participants' response behavior. Empirical research has found that survey participants' attentiveness decreases while completing a questionnaire, particularly if response options are consistently structured in a similar way. This implies the risk that participants do not carefully consider their responses. To mitigate this risk, appropriate measures were taken when designing the survey for this empirical investigation. Survey participants' attentiveness is stimulated by changing the categories on the scale throughout the questionnaire, an approach proposed by scientists to moderate fatigue effects (Krosnick & Presser, 2010, p. 278 et seq.). The change of scale is explicitly announced to the respondents in written form in the respective sections of the questionnaire. During the first section of the questionnaire, the answer scale begins with the category 'strongly disagree' (1) on the left and ends with the category 'strongly agree' (5) on the right. In the second section, the scale is changed to begin with the category 'strongly agree' (5) on the left and end with the category 'strongly disagree' (1) on the right. In the third section, the answer scale is changed again, starting with the category 'strongly disagree' (1) on the left and ending with the category 'strongly agree' (5) on the right (see appendix 1). Participants must thus carefully consider where to place each check mark throughout the entire questionnaire. This measure attempts to reduce the risk of distortion of survey participants' responses in consequence of fatigue effects.

Equalizing the distance between (1) and (2) and between (3) and (4) has also been considered. Thus, the fixed distribution on the continuum between the extremes implies a structured and subjective differentiation of the characteristic dimension and presents symmetry of the Likert items centered on a middle category. A symmetric and equidistant Likert scale functions more like an interval scale and can thus be used to estimate an interval-level measurement, so corresponding variables can be used in SEM methods (Hair et al., 2014, p. 9). The application of such rating scales, moreover, allows respondents to note their perceptions in a quick and unproblematic way, which enhances acceptance and readiness to provide information (Hair et al., 2014, p. 9; Helm, 1997, p. 137 et seq.; Röderstein, 2009, p. 173 et seq.).

Before the effective empirical survey was undertaken, pre-tests were conducted in December 2015 and January 2016. Four scientists from the academic field were asked to complete the preliminary questionnaire to check whether it is reasonably structured and comprehensive and whether questions can be answered unequivocally. In addition, five experts of the automotive industry were asked to complete a preliminary questionnaire. After the respondents completed the preliminary questionnaire, its comprehensibility, completeness, and meaningfulness were discussed. Interviewees were asked whether they faced difficulty with particular questions and whether terms or formulations were incomprehensible. They were also encouraged to express any further remarks regarding the questionnaire. The primary aim of this was to examine the content validity of the constructs as well as the comprehensibility of the questions. Based on the respondents' feedback, the questionnaire was revised. Questions were reformulated, the sequence of questions was adapted, one new question was included, and connecting passages were included to better guide respondents through the questionnaire (see appendix 2). The pre-tests also gave an indication of how much time respondents require to complete the questionnaire (Helm, 1997, p. 137 et seq.; Röderstein, 2009, p. 173 et seq.).

#### *Undertaking the survey*

After the questionnaire was optimized by considering feedback from the pre-test, the empirical survey was launched. As already mentioned, it was distributed to 140 experts that work for five brands of a German automotive group as well as for the group itself and who deal with internationalization processes in their daily business routines. The survey was carried out with a paper-based questionnaire that was personally distributed to the experts in an attempt to increase the respondents' commitment level and thus augment the response rate. The questionnaire consists of seven pages. The first page presents a short introduction to the topic and informs respondents that all responses will remain anonymous (see appendix 1) (Röderstein, 2009, p. 175 et seq.). In the first survey phase, data was collected in January, February, and March 2016. Four weeks after the questionnaires were distributed, a reminder email was sent to the participants with a request to complete the questionnaire. After this first survey phase, 78 of the 84 distributed questionnaires had been returned and could be used for the empirical analysis. A second survey phase was undertaken in November and December 2016. This second survey phase was initiated to increase the number of survey participants and to obtain a more balanced reference group. Thus, in this phase, an attempt was made to convince experts working directly for the automotive group to participate in the survey as well as experts of the group's non-premium brands. During the first survey phase, it should be



mentioned that most participants were experts working for one of the group's premium brands, as access to this brand was most pronounced. Four weeks after the questionnaires were distributed in the second survey period, a reminder email was again sent to request participants to complete the questionnaire. In the end, a total of 117 of 140 distributed questionnaires were returned. The response rate is thus a relatively high 83.6%. This high response rate can potentially be explained by the fact that relevant experts were personally approached, which may have increased the respondents' commitment level. Moreover, it can be supposed that the reminder emails sent to survey participants contributed to this high response rate.

Because of the second survey phase, a more balanced reference group was attained. Whereas the majority of the respondents were experts working for one of the group's premium brands, since contact with this brand was pronounced, key informants that work directly for the group or for other brands of the automotive group have been accomplished to be identified, contacted, and asked to participate. The share of the latter group represents more than 33% of the sample.

Two returned questionnaires could not be integrated in the statistical evaluation since they were not filled out consistently. The responses on the respective questionnaires suggest that the respondents overlooked the changing scales throughout the questionnaire. For example, in the first section of the questionnaire, one respondent agreed to the statement that tariff trade barriers are a significant motive to initiate an analysis of whether production activities abroad should be implemented to exploit international markets effectively. The respondent checked the fourth box from the left, which was described in verbal terms as "agree". In the second section of the questionnaire, a similar statement was made that tariff trade barriers are an important influencing factor to decide whether an analysis evaluating a market's optimal exploitation strategy should be initiated. The respondent again checked the fourth box from the left. However, the categories of the scale were changed, and the instructions indicated to the respondent that this box corresponds to "disagree" in this section of the questionnaire. Therefore, checking the fourth box implies that the respondent does not agree with the statement, which is inconsistent to his response in the first part. Similar inconsistent response patterns occurred repeatedly in this questionnaire. It was thus assumed that the respondent overlooked changes to the scale categories. Therefore, this questionnaire and one additional questionnaire, which had similar inconsistent response behavior, were excluded from the statistical analysis so as not to falsify the results.

### 6.1.3. Data analysis

Before the results of the empirical study are examined and discussed, it is reasonable to carry out a brief data analysis. Although PLS-SEM makes no assumption about data distribution, it is valuable to assess the indicators' distribution. Two measures of distribution, skewness and kurtosis, should be examined. If a variable's skewness and kurtosis values are 0, the variable can be characterized as normally distributed. However, no consensus has been reached in regard to which value indicates a critical deviation. A conservative estimation claims a deviation is critical when the skewness and kurtosis values are above |1| (Temme & Hildebrandt, 2009, p. 166). Within the prevailing data set, the majority of the indicators show critical values in terms of skewness and kurtosis. Thus, most of the indicators cannot be characterized as normally distributed. The characteristics of the prevailing data set, which contains many variables that are not distributed normally, thus further support the use of the PLS-SEM method for evaluating the data, since compared to CB-SEM, it does not require indicators to be normally distributed (Hair et al., 2014, p. 19; Nitzl, 2012, p. 157).

The issue of missing values should also be mentioned briefly. For the indicators evaluated by 115 survey participants, only 12 values are missing. No indicator demonstrates more than three missing values, so the maximum portion of missing values per indicator is 3%, which is comparably low. Therefore, the 'mean replacement' procedure, which is integrated in the Smart PLS software, was applied to estimate the 12 missing values (Nitzl, 2012, p. 158).

## 6.2. Empirical evaluation and discussion of the measurement model

The empirical evaluation was conducted as described in Chapter 4.4. First, the measurement models were evaluated and discussed. In the following, based on the precondition that latent variables are measured reliably, the quality of the structural model is estimated. The corresponding results are examined in Chapter 6.3. Finally, in Chapter 6.4, the outcomes of the overall conceptual model are evaluated and conclusions are drawn.

Based on the quality criteria introduced in Chapter 4.4.1, the following assesses whether reliable and valid measurements of the latent constructs exist.

### 6.2.1. Assessing the first measurement model: the latent variable ‘screening’ and its indicators

The established conceptual model suggests that five indicators, namely ‘market potential’, ‘tariff trade barriers’, ‘non-tariff trade barriers’, ‘free trade agreements’, and ‘local requirements’, determine the latent variable that represents the screening and identification phase, in other words phase one, of the decision-making process of corporations’ internationalization and market exploitation strategies. Table 8 shows the quality criteria used to evaluate the first formative measurement model.

*Table 8: Quality assessment of the formative measurement model ‘Screening’*

Indicator	Outer weight	t-value	Outer loading	VIF value
<b>Market Potential</b>	0.545	3.861***	0.631	1.145
<b>Tariff Trade Barriers</b>	0.205	1.418 <sup>n.s.</sup>	0.573	1.415
<b>Non-tariff Trade Barriers</b>	-0.059	0.531 <sup>n.s.</sup>	0.582	1.702
<b>Free Trade Agreements</b>	0.607	3.819***	0.826	1.619
<b>Local Requirements</b>	0.235	1.834*	0.305	1.151

\*\*\* p < 0.01 (estimated based on 5,000 bootstraps with the ‘individual changes’ method)

\*\* p < 0.05 (estimated based on 5,000 bootstraps with the ‘individual changes’ method)

\* p < 0.1 (estimated based on 5,000 bootstraps with the ‘individual changes’ method)

n.s. = not significant

Table 8 demonstrates high quality ratings for the formative measurement model. The path coefficients of the indicators, which in formative measurement models are termed outer weights, demonstrate explanatory power in regard to the construct ‘screening’. To test the statistical significance of the outer weights, the bootstrapping method was applied for ‘individual changes’ with 5,000 bootstraps. Henseler et al. (2009, p. 307) advised the use of this method.

The indicator ‘market potential’ has an outer weight of 0.545. With a t-value of 3.861, it is highly statistically significant. Its outer loading is 0.631. The VIF value of the indicator is 1.145 and thus considerably below both developed critical values of 5 and 10, so there are no collinearity issues (Hair et al., 2011; Henseler et al., 2009).

The indicator ‘tariff trade barriers’ has an outer weight of 0.205. Its t-value is 1.418 and thus it is not statistically significant. However, an indicator that is not statistically significant should not be eliminated automatically, which is explained in more detail in Chapter 4.4.1. Instead, its outer loading should be examined. At 0.573, the indicator’s outer loading is above

the critical value of 0.500. It should thus be interpreted as important and accordingly retained (Hair et al., 2014, p. 129). The VIF value of the indicator is 1.415. Since it is substantially below the critical value, there is no issue of collinearity.

The indicator 'non-tariff trade barriers' has a negative outer weight of -0.059. Typically, this indicates a negative relationship between the manifestation of the indicator and the latent variable. In terms of content, this is not plausible since the prevalence of non-tariff trade barriers does not diminish a country's potential for local production activities. The opposite is true since non-tariff trade barriers can be circumvented when local production activities are realized. Therefore, a positive relationship between the indicator 'non-tariff trade barriers' and the latent variable 'screening' can be assumed. However, negative outer weights can also occur within formative measurement models if indicators act as suppressors and/or are collinear with other indicators. The indicator 'non-tariff trade barriers', nonetheless, does not act as a suppressor for other indicators of the latent variable, which can be explained by the content. No other indicator deals with the issue of non-tariff trade barriers. One term that sounds similar, the indicator 'tariff trade barriers', has been included, but there is a clear content-related distinction between tariff and non-tariff trade barriers, and examples of both indicators have been mentioned. Discussions conducted with participants during the pre-test phase did not reveal any issues with the content-related design of these two indicators. A suppressing effect is thus not expected. The indicator's VIF value is 1.702, which is noticeably below both developed critical values of 5 and 10, so there is no collinearity issue. The indicator should hence remain in the analysis and be treated normally (Cenfetelli & Bassellier, 2009, p. 697). However, with a t-value of 0.531, the indicator is not statistically significant. Nonetheless, since its outer loading is 0.582 and thus above the critical value of 0.500, the indicator 'non-tariff trade barriers' should be interpreted as important and consequently retained.

The indicator 'free trade agreements' has an outer weight of 0.607. With a t-value of 3.819, it is highly statistically significant. Its outer loading is 0.826, and it has a VIF value of 1.619, which is distinctively below the critical value, so there is no collinearity issue.

The indicator 'local requirements' has an outer weight of 0.235. Its t-value is 1.834, so the indicator is statistically significant. Its outer loading is 0.305, and its VIF value is 1.151, so there is no collinearity issue.

### *Discussion of the empirical results*

The empirical results demonstrate that the indicator ‘free trade agreements’ most strongly influences the latent variable ‘screening’. This is an astonishing finding since the literature as well as exploratory preliminary talks with experts suggest that market potential and trade barriers are the most decisive driving forces for corporations to consider when analyzing the potential of local production activities in growing markets.

One explanatory approach to why free trade agreements significantly influence the first process phase of corporations’ internationalization and market exploitation strategies is that these agreements between countries empower corporations to supply not only one market, the target market where local production activities are to be implemented, but also countries that can be accessed duty free due to the agreements. It is thus no longer solely the market potential of the target market, where the production facilities are to be installed, that is decisive for corporations when analyzing production activities abroad but the entire sales potential offered by the target country and countries with which it has free trade agreements. This line of argumentation could explain why the existence of free trade agreements has a significant influence on the latent variable ‘screening’.

There is another explanatory approach to the considerable influence that free trade agreements have on the latent variable ‘screening’. Free trade agreements empower corporations, as just been mentioned, to supply not only the target market where local production activities are installed, but also the countries linked to the target market via free trade agreements. Therefore, the local production volume can be increased. The implementation of production facilities typically requires a major investment. Fixed costs, which emerge as a result of building a production plant or equipping a production line, for instance, are classically allocated to the production volume. If the production volume increases, since the target market as well as the markets linked via free trade agreements can be supplied, the extent of the fixed costs per production unit decreases. Therefore, production costs per unit can be reduced, which may improve the profitability of local production.

Consequently, in the first phase of the decision-making process of corporations’ internationalization and market exploitation strategies, the screening and identification phase, significant attention should be paid to countries’ free trade agreements. The influencing factor ‘free trade agreements’ should thus be strongly weighted.

The indicator ‘market potential’ has the second strongest influence on the latent variable ‘screening’. The high relevance of this influencing factor is unsurprising since the literature

overview demonstrated that market potential plays an imperative role in corporations' internationalization and market exploitation strategies. This is particularly the case when corporations are analyzing the potential to relocate production activities due to sales-driven aspects. The empirical investigation thus provides further support that the market potential countries yield is highly relevant to corporations, specifically within their internationalization and market exploitation strategies. Great attention should thus be paid to the influencing factor 'market potential' in the first phase of the decision-making process of corporations' internationalization and market exploitation strategies.

The indicator with the third strongest impact on the screening and identification phase is the influencing factor 'local requirements'. This empirical result underlines that the requirements local authorities impose on foreign corporations wishing to produce within a country, such as local value-added requirements or the fulfillment of a certain production depth, are decisive factors for corporations wanting to internationalize their production network.

The indicators 'tariff trade barriers' and 'non-tariff trade barriers' have the least influence on the screening and identification phase of the decision-making process of corporations' internationalization and market exploitation strategies. Moreover, the indicators are not statistically significant. This is surprising since the literature review as well as exploratory preliminary talks with experts propose that trade barriers, which impede export strategies, are among the most important driving factors for corporations considering implementing sales-driven production activities in international markets.

Even if the indicators impact the construct to only a limited extent, attention should nonetheless be paid to these influencing factors since the empirical investigation revealed that them as important to explaining the screening and identification phase of the decision-making process of corporations' internationalization and market exploitation strategies since the outer loadings are above the critical value of 0.500. However, it would be illuminating if future studies examined in more detail the role trade barriers effectively play in the decision-making process of corporations' internationalization and market exploitation strategies.

The empirical investigation thus underlines that the five indicators, 'market potential', 'tariff trade barriers', 'non-tariff trade barriers', 'free trade agreements', and 'local requirements', which were conceptualized to determine the first phase of the decision-making process of corporations' internationalization and market exploitation strategies, are decisive influencing

factors. Corporations should thus, within this first process step, elaborate on these key drivers to evaluate whether foreign countries demonstrate potential to be exploited more adequately if sales-motivated local production activities were implemented.

#### 6.2.2. Assessing the second measurement model: the latent variable ‘country analysis’ and its indicators

The second phase of the decision-making process of corporations’ internationalization and market exploitation strategies is represented by the second latent variable in the conceptual model. This latent variable, ‘country analysis’, was defined when drafting the conceptual model by the five indicators ‘economic performance’, ‘development of the automotive industry’, ‘competitors’ local production activities’, ‘local production activities’, and ‘local supplier industry’ and one further latent variable, ‘external trade situation’. The latent variable ‘external trade situation’ is determined by five further indicators, namely ‘tariff trade barriers’, ‘non-tariff trade barriers’, ‘economic communities’, ‘free trade agreements’, and ‘local requirements’. Table 9 shows the quality criteria used to evaluate the formative measurement model ‘external trade situation’.

*Table 9: Quality assessment of the formative measurement model ‘External Trade Situation’*

Indicator	Outer weight	t-value	Outer loading	VIF value
<b>Tariff Trade Barriers</b>	0.057	0.410 <sup>n.s.</sup>	0.520	1.734
<b>Non-tariff Trade Barriers</b>	0.045	0.289 <sup>n.s.</sup>	0.627	2.068
<b>Economic Communities</b>	0.182	0.941 <sup>n.s.</sup>	0.843	2.685
<b>Free Trade Agreements</b>	0.712	2.877***	0.977	2.916
<b>Local Requirements</b>	0.158	1.150 <sup>n.s.</sup>	0.595	1.320

\*\*\* p < 0.01 (estimated based on 5,000 bootstraps with the ‘individual changes’ method)

n.s. = not significant

Table 9 demonstrates the quality criteria for the formative measurement model ‘external trade situation’. In this second stage of the decision-making process of corporations’ internationalization and market exploitation strategies, a detailed analysis of the external trade situation is, among other analyses, considered necessary. Indicators, which are partially considered during the first phase of the process and thus contribute to determining the first latent variable of the conceptual model are discussed in more detail in the following. The

outer weights of the indicators demonstrate their explanatory power in regard to the construct 'external trade situation'. To test the statistical significance, the bootstrapping method 'individual changes' with 5,000 bootstraps was employed.

The indicator 'tariff trade barriers' has an outer weight of 0.057. Its t-value is 0.410 and thus the indicator is not statistically significant. However, as described in detail in Chapter 4.4.1, an indicator that is not statistically significant should not be disregarded immediately. In this case, the indicator's outer loading requires examination. The indicator's outer loading of 0.520 is above the critical value of 0.500. Therefore, the indicator should be considered as important to explaining the construct 'external trade situation' (Hair et al., 2014, p. 129). The indicator's VIF value of 1.734 is considerably below both developed critical values of 5 and 10, so collinearity issues can be neglected (Hair et al., 2011; Henseler et al., 2009).

The indicator 'non-tariff trade barriers' has an outer weight of 0.045. With a t-value of 0.289, the indicator is not statistically significant. However, the indicator's outer loading is 0.627, which is above the critical level. The indicator should thus be retained in the measurement model. Moreover, the indicator has a VIF value of 2.068, which is considerably below the critical value, so there is no collinearity problem.

The indicator 'economic communities' discloses an outer weight of 0.182. Its t-value is 0.941, so it is not statistically significant. However, its outer loading is 0.843 and thus considerably above the critical value of 0.500. Hence, the indicator 'economic communities' should be considered for explaining the construct 'external trade situation'. The indicator's VIF value is 2.685, so there is no collinearity issue.

The indicator 'free trade agreements' has an outer weight of 0.712. Its t-value is 2.877, so the indicator is highly statistically significant. Its outer loading is 0.977, and its VIF value is 2.916, so there are no collinearity issues.

The indicator 'local requirements' has an outer weight of 0.158. Its t-value is 1.150, so it is not statistically significant. However, its outer loading of 0.595 is above the critical value, so it should not be eliminated since the indicator is important for explaining the construct 'external trade situation'. The VIF value of 1.320 is below both developed critical values of 5 and 10, so there are no problems of collinearity.



### *Discussion of the empirical results*

The latent variable ‘external trade situation’ should be included in the second process step of the developed decision-making process model of corporations’ internationalization and market exploitation strategies. Although four of the construct’s five indicators, namely ‘tariff trade barriers’, ‘non-tariff trade barriers’, ‘free trade agreements’, and ‘local requirements’, are already considered in the first process step, it is necessary to include a detailed analysis of these influencing factors in the second process phase and to add one additional factor, the indicator ‘economic communities’.

Whereas in the first phase it is sufficient to gather general information about these indicators, undertaking a detailed analysis has been suggested as vital for the second phase. This has already been explained in more detail within Chapter 5.2.

The empirical assessment revealed that the indicator ‘free trade agreements’ clearly has the strongest influence on the construct ‘external trade situation’. In line with the argumentation in Chapter 6.2.1, this is surprising. It can be explained, however, by the fact that free trade agreements empower corporations to exploit not only the target market but also the markets that can be accessed duty free from the target market.

A second possible explanation pattern, which is elaborated in more detail in Chapter 6.2.1, is that increasing production volume, due to customers in more countries, decreases the production cost per unit and has the potential to increase the profitability of local production. The empirical investigation thus makes it very clear that significant attention should be paid to a detailed analysis of the free trade agreements in which a country with potential for local production activities is involved.

After the factor ‘free trade agreements’, which has the strongest influence, the indicator ‘economic communities’ has the second strongest influence on the latent variable ‘external trade situation’, albeit at a significantly lower level. Taking previous findings of this empirical investigation into account, this is unsurprising since a main characteristic of economic communities is free trade. It is thus plausible that the classification of the indicators ‘free trade agreements’ and ‘economic communities’ is similar.

The indicator ‘local requirements’ has the third strongest impact on the construct ‘external trade situation’. This empirical result emphasizes the relevance of corporations reflecting on

local requirements countries impose on foreign producers as part of their decision-making process of where to produce abroad.

In line with other findings of this empirical study, which are discussed in Chapter 6.2.1, the indicators ‘tariff trade barriers’ and ‘non-tariff trade barriers’ have the least influence on the latent variable ‘external trade situation’. This is again surprising since trade barriers have been given great importance in the literature as well as by business experts. Although the empirical results demonstrate that trade barriers appear to be less influential than the indicators ‘free trade agreements’, ‘economic communities’, and ‘local requirements’ the empirical results also underline the importance of considering ‘tariff trade barriers’ as well as ‘non-tariff trade barriers’ in the second process step of the decision-making process of corporations’ internationalization and market exploitation strategies.

It would nonetheless be interesting to undertake future research about the effective role that trade barriers play in the decision-making process of corporations’ internationalization and market exploitation strategies.

Since four of the five indicators that explain the latent variable ‘external trade situation’ are not statistically significant, future research would be helpful to better understand the sub-dimensions of this latent variable. To obtain a comprehensive picture of the construct ‘external trade situation’, it is reasonable to carry out future qualitative studies. For instance, interviews could be conducted with experts of corporations’ customs or political affairs departments to attain a comprehensive understanding of the diverse influencing factors that shape a country’s external trade situation. The empirical investigation in the present research nonetheless verifies that the factor ‘external trade situation’ is generally important for corporations to consider as part of their decision-making process in the context of internationalization and market exploitation strategies. This is elaborated in more detail in Chapter 6.3. It would thus be highly desirable if future research were to explore this construct more profoundly.

The empirical analysis shows that five indicators, namely ‘tariff trade barriers’, ‘non-tariff trade barriers’, ‘free trade agreements’, ‘economic communities’, and ‘local requirements’, determine the construct ‘external trade situation’. The factor ‘free trade agreements’ clearly has the most significant impact on the latent variable whereas the other indicators influence the construct at a similar yet considerably lower level. Corporations should thus, within the

second process step, consider the dimensions of a country's external trade situation when analyzing whether foreign countries demonstrate a potential for setting up sales-motivated local production activities.

After evaluating the construct 'external trade situation', which is an element that influences the second process step of corporations' internationalization and market exploitation strategies, the latent variable 'country analysis' is comprehensively assessed in the following.

Table 10 shows the quality criteria used to evaluate the formative measurement model 'country analysis', which is explained by the five indicators 'economic performance', 'development of the automotive industry', 'competitors' local production activities', 'local production activities', and 'local supplier industry' and an additional latent variable, 'external trade situation'. Since it has been shown that the respective indicators reliably measure the latent variable 'external trade situation', this construct can be included in the quality assessment.

*Table 10: Quality assessment of the formative measurement model 'Country Analysis'*

Indicator	Outer weight / Path coefficient	t-value	Outer loading	VIF value
<b>Economic Performance</b>	0.215	1.706*	0.613	1.219
<b>Development of the Automotive Market</b>	0.330	2.328**	0.641	1.295
<b>External Trade Situation</b>	0.319	3.370***	-	2.156
<b>Local Production Activities</b>	0.304	2.442**	0.751	1.846
<b>Local Supplier Industry</b>	0.440	3.648***	0.785	1.329
<b>Competitors' Local Production Activities</b>	0.163	1.174 <sup>n.s.</sup>	0.509	1.549

\*\*\* p < 0.01 (estimated based on 5,000 bootstraps with the 'individual changes' method)

\*\* p < 0.05 (estimated based on 5,000 bootstraps with the 'individual changes' method)

\* p < 0.1 (estimated based on 5,000 bootstraps with the 'individual changes' method)

n.s. = not significant

Table 10 shows satisfactory quality criteria for the formative measurement model 'country analysis'. The outer weights of the indicators demonstrate explanatory power in regard to the construct 'country analysis'. Again, the bootstrapping method 'individual changes' with 5,000 bootstraps was employed to test the statistical significance.

The indicator ‘economic performance’ has an outer weight of 0.215. Its t-value is 1.706, so the indicator is statistically significant. Its outer loading is 0.613, and its VIF value is 1.219. Issues of collinearity can thus be neglected since the VIF value is considerably below both developed critical values of 5 and 10 (Hair et al., 2011; Henseler et al., 2009).

The indicator ‘development of the automotive market’ has an outer weight of 0.330. With a t-value of 2.328, the indicator is statistically significant. The indicator’s outer loading is 0.641. Since its VIF value is 1.295, there are no collinearity issues.

The construct ‘external trade situation’ has a path coefficient of 0.319. With a t-value of 3.370, the indicator is highly statistically significant. Its VIF value of 2.156 reveals that there is no problem of collinearity.

The indicator ‘local production activities’ has an outer weight of 0.304. With a t-value of 2.442, it is statistically significant. Its outer loading is 0.751, and its VIF value is 1.846, so there is no problem with collinearity.

The indicator ‘local supplier industry’ has an outer weight of 0.440. The indicator’s t-value is 3.648, so the indicator is highly statistically significant. Its outer loading is 0.785. There are no collinearity issues since the indicator’s VIF value is 1.329 and thus clearly below the critical value.

The indicator ‘competitors’ local production activities’ has an outer weight of 0.163. With a t-value of 1.174, it is not statistically significant. However, as explained in Chapter 4.4.1, an indicator that is not statistically significant should not be removed automatically. Instead, its outer loading should rather be assessed (Hair et al., 2014, p. 129). With an outer loading of 0.509 the indicator’s outer loading is above the critical value of 0.500. It should thus be interpreted as important and accordingly retained. Since the indicator’s VIF value of 1.549 is clearly below both developed critical values of 5 and 10, there are no issues of collinearity.

#### *Discussion of the empirical results*

The empirical investigation shows that the indicator ‘local supplier industry’ has the strongest influence on the latent variable ‘country analysis’. This finding suggests that corporations should place major importance on the industrial structure, in particular of the supplier

industry, of a potential market. This outcome is unsurprising since within the automotive industry in particular, the focus of the empirical survey, industrial framework conditions must be appropriate to realize production activities. It has been previously discussed that many countries require foreign car manufacturers to fulfill certain local content requirements. It is thus essential for car manufactures that a pronounced supplier industry exists within the target market. If local components cannot be obtained from the local supplier industry since, for instance, no suppliers are located in the country or because quality and/or cost requirements cannot be met, there is a risk that car manufactures cannot meet the local content requirements imposed by local authorities. This directly entails that the feasibility of local production activities is at stake. The result of the empirical investigation thus underlines the importance of the indicator 'local supplier industry' in the second process phase of corporations' internationalization and market exploitation strategies.

The indicator 'development of the automotive market' has the second strongest influence on the construct 'country analysis'. This is unsurprising since the literature review as well as preliminary talks with business experts suggest that market potential is crucial for corporations deciding whether to undertake an in-depth analysis of engaging in production activities abroad.

It is interesting that the construct 'external trade situation' has the third strongest influence in the second process step of the decision-making process of corporations' internationalization and market exploitation strategies. The factor 'development of the automotive market' also, if only to a small extent, more strongly influences the latent variable 'country analysis'. This is interesting because one dimension of the external trade situation, the dimension 'free trade agreements' was found to be the most influencing factor within the first process phase. This finding may indicate that the importance of 'development of the automotive market' increases during the process of investigation whether international markets demonstrate potential to be exploited more effectively if local production activities were in place.

The fourth strongest influencing factor is the indicator 'local production activities'. The analysis of production activities in a potential target market makes it possible to draw conclusions about whether required framework conditions to implement production activities are existent. It gives an idea of the production depths already realized in a country and what products are being built. Such an analysis also gives an indication about whether relevant

framework conditions such as an adequate labor force, infrastructure, or adequate power and water supply are existent. The analysis of production activities is thus an important undertaking that corporations should consider when analyzing whether a country can and should be exploited effectively via implementing local production activities. The results of the empirical investigation underline the importance of analyzing this factor in the second phase of the decision-making process of corporations' internationalization and market exploitation strategies.

The empirical assessment also demonstrates that the indicator 'economic performance' influences the construct 'country analysis'. Thus, it should also be considered in the second process phase of the decision-making process of corporations' internationalization and market exploitation strategies.

An astonishing empirical outcome is the finding that the factor that least influences the second process step of corporations' internationalization and market exploitation strategies is the indicator 'competitors' local production activities'. Based on the literature review as well as expert opinions, it was expected that this indicator would have a major influence on a corporation's evaluation of whether a country is classified as a potential market for more adequate exploitation through the implementation of local production activities. The initial expectation was that if a competitive analysis revealed that competitors are already producing in a specific market abroad, this would typically imply that local production activities would yield advantages for local producers, such as advantages due to lower import barriers or cost savings due to lower material and/or labor costs. A second expectation was that if a competitive analysis showed that competitors are already producing locally, this would indicate that local framework conditions such as the supplier industry were at adequate levels to enable a feasible implementation of local production activities. Therefore, an analysis of competitors' production activities on international markets was expected to be decisive for corporations. Although the empirical investigation shows that it is relevant to analyze the indicator 'competitors' local production activities' in the second process phase of corporations' internationalization and market exploitation strategies, it is surprising that this factor is the least influential.

Further empirical studies should be undertaken with an increased sample size, for instance, to examine the actual contribution that the influencing factor 'competitors' local production

activities’ has within a country analysis undertaken as part of the decision-making process of corporations’ internationalization and market exploitation strategies.

The empirical investigation thus confirmed that analog to the conceptualized model, the following influencing factors should be analyzed within the second process step of the decision-making process of corporations’ internationalization and market exploitation strategies: ‘economic performance’, ‘development of the automotive market’, ‘external trade situation’, ‘competitors’ local production activities’, ‘local production activities’, and ‘local supplier industry’.

### 6.2.3. Assessing the third measurement model: the latent variable ‘feasibility study’ and its indicators

After the first phase, the screening and identification phase, and the second phase, a country analysis, the decision-making process of corporations’ internationalization and market exploitation strategies should include a third phase, a feasibility study. The latent variable ‘feasibility study’ has been modeled to be explained by six indicators: ‘advantages based on local production activities’, ‘production costs’, ‘logistic costs’, ‘localization costs’, ‘resources’, and ‘transaction costs’. Table 11 displays the quality assessment that was undertaken to evaluate this formative measurement model.

*Table 11: Quality assessment of the formative measurement model ‘Feasibility Study’*

Indicator	Outer weight	t-value	Outer loading	VIF value
<b>Advantages Based on Local Production Activities</b>	0.108	0.903 <sup>n.s.</sup>	0.610	1.613
<b>Production Costs</b>	0.257	2.018**	0.623	1.556
<b>Logistic Costs</b>	0.011	0.103 <sup>n.s.</sup>	0.647	1.736
<b>Localization Costs</b>	0.731	4.676***	0.929	1.727
<b>Resources</b>	-0.057	0.567 <sup>n.s.</sup>	0.291	1.301
<b>Transaction Costs</b>	0.263	1.882*	0.397	1.224

\*\*\* p < 0.01 (estimated based on 5,000 bootstraps with the ‘individual changes’ method)

\*\* p < 0.05 (estimated based on 5,000 bootstraps with the ‘individual changes’ method)

\* p < 0.1 (estimated based on 5,000 bootstraps with the ‘individual changes’ method)

n.s. = not significant

Table 11 displays the quality criteria for the construct ‘feasibility study’. The outer weights of the indicators demonstrate explanatory power. The bootstrapping method ‘individual changes’ with 5,000 bootstraps was employed to test the statistical significance.

The indicator ‘advantages based on local production activities’ has an outer weight of 0.108. Its t-value of 0.903 reveals that it is not statistically significant. Nonetheless, the indicator is important to explain the construct ‘feasibility study’, as its outer loading value of 0.610 is above the critical value (Hair et al., 2014, p. 129). The VIF value is 1.613 and thus there are no collinearity problems since the VIF value is considerably below both developed critical values of 5 and 10 (Hair et al., 2011; Henseler et al., 2009).

The indicator ‘production costs’ has an outer weight of 0.257. With a t-value of 2.018, the indicator demonstrates statistical significance. Its outer loading is 0.623, and its VIF value is 1.556, so there is no issue of collinearity.

The indicator ‘logistic costs’ has an outer weight of 0.011. The t-value of 0.103 reveals that the indicator is not statistically significant. However, as its outer loading is 0.647, which is above the critical level of 0.500, the indicator should be considered an important indicator to explain the construct ‘feasibility study’. The indicator’s VIF value is 1.736, so there are no collinearity problems.

The indicator ‘localization costs’ has an outer weight of 0.731. Its t-value is 4.676, so the indicator is highly statistically significant. Its outer loading is 0.929, and its VIF value is 1.727, so there are no issues with collinearity.

The indicator ‘resources’ has an outer weight of -0.057. A negative outer weight generally implies a negative relationship between the indicator and its latent variable. In terms of content, however, this is not plausible since the necessity of using financial and personnel resources to implement local production activities does not negatively influence the relevance of this influencing factor for conducting a comprehensive feasibility study. Another possible explanation approach is that the indicator suppresses the manifestation of another indicator due to issues of collinearity. However, there is no indicator that relates to the content ‘resources’. There are also no collinearity issues, since the general VIF values of the construct’s indicators and the particular VIF value of the indicator ‘resources’ (1.301) are



considerably below the critical level. The indicator should thus be interpreted normally (Cenfetelli & Bassellier, 2009, p. 697). The indicator's t-value is 0.567, so it is not statistically significant. However, indicators that are not statistically significant should not be automatically eliminated. Instead, the indicator's outer loading requires further assessment. The outer loading of the indicator 'resources' is 0.291, which is below the critical level of 0.500. The empirical investigation thus reveals that the indicator 'resources', which was conceptualized as important for conducting a comprehensive feasibility study, does not influence the construct 'feasibility study'. The indicator 'resources' should accordingly not be integrated in the decision-making process of corporations' internationalization and market exploitation strategies (Hair et al., 2014, p. 129).

The indicator 'transaction costs' has an outer weight of 0.263. Its t-value is 1.882, so it is statistically significant. Its outer loading is 0.397, and its VIF value is 1.224. Hence, there are no issues of collinearity.

#### *Discussion of the empirical results*

The results of the empirical investigation for the third process phase of the decision-making process of corporations' internationalization and market exploitation strategies reveal that the indicator 'localization costs' clearly has the strongest impact on the construct 'feasibility study'. This demonstrates that within a feasibility study, where all aspects surrounding production activities in a specific target market are taken into consideration, emphasis ought to be placed on localization activities. This is in line with the empirical results for the second process phase (see Chapter 6.2.2), where the indicator 'local supplier industry' was shown to be the most influential. These results clearly indicate that the localization of parts and components is essential for realizing feasible production facilities abroad. It is thus proposed that corporations should be vigilant about localization activities and the costs that come along with it. From an early stage, namely the second process step of the decision-making process of corporations' internationalization and market exploitation strategies, these considerations should be included in the evaluation of production activities abroad.

The indicator with the second highest influence on the latent variable 'feasibility study' is 'transaction costs'. This indicator was integrated in the conceptual model primarily because transaction cost theory decisively shapes international management literature. A widespread consensus has been reached within academia as well as the business environment that

transaction costs play a prominent role when conducting international business activities. The empirical findings support the relevance that transaction costs have within today's business realities. The indicator 'transaction costs' is thus an important influencing factor to consider in the third process phase, the feasibility study, of the decision-making process of corporations' internationalization and market exploitation strategies.

The empirical findings moreover reveal that the factor with the third strongest influence on the feasibility study is the indicator 'production costs'. This indicates that production costs strongly influence feasibility studies of sales-driven production activities in potential markets. This is an unsurprising finding. Implementing production activities abroad does, of course, come along with costs. Typically, a production facility must be built, production processes must be set up, a production line must be equipped, and a production must be ramped up. The empirical results thus underline that those production-driven costs should be substantively evaluated and carefully considered when conducting a feasibility study, which should serve as a basis for deciding whether to realize production activities abroad.

An additional important influencing factor that determines the outcome of a feasibility study, the third process step of the decision-making process of corporations' internationalization and market exploitation strategies, is the advantages that corporations can attain when local production activities are implemented. This empirical result again is unsurprising. Corporations analyzing whether to implement sales-motivated production activities abroad are primarily in the process of investigation because they expect to gain financial advantages when producing locally. Typically, it is tariff or non-tariff trade barriers that impede access to international markets for exporters. Therefore, if a corporation adapts its strategy towards a local production strategy, import barriers such as import duties or taxes would be attenuated. Therefore, an immediate, apparent financial advantage directly occurs due to the implementation of local production activities. Within a corporation's feasibility study, where a business case is typically conducted, this financial advantage, the elimination of import tariffs, for example, can be disclosed explicitly. Unequivocally, this indicator represents an important factor that needs to be considered in a feasibility study of local production activities. This is conclusively underlined by the empirical results.

The least influential indicator, which only shows limited explanatory power, but nonetheless requires consideration within the feasibility study, is the influencing factor 'logistic costs'.

The empirical results thus confirm that the conceptualized model should consider logistic costs within a feasibility study about production activities abroad.

However, the indicator ‘resources’, which was conceptualized as important for conducting a comprehensive feasibility study, was not found to influence the construct ‘feasibility study’ significantly within the context of this empirical investigation. The empirical evaluation was not able to demonstrate that financial and personnel resources significantly influence a feasibility study in regard to whether production activities should be implemented abroad. This empirical result is astounding. During discussions with experts that were conducted preceding the survey, the relevance of this influencing factor was explicitly highlighted numerous times. The literature review also clearly indicated the importance of this variable (see for example Ulrich et al., 2014, p. 428). A possible explanation for why the empirical investigation did not show a significant influence of the indicator ‘resources’ on the latent variable ‘feasibility study’ may be that the survey participants assumed that if corporations decide to implement production activities abroad, other strategic projects that already require personnel and financial resources would be put on hold. Following this assumption, additional personnel and financial resources would not be required since existing resources would be redistributed. This factor would hence not need to be considered when undertaking a feasibility study, the third step within the decision-making process of corporations’ internationalization and market exploitation strategies. The plausibility of this explanation pattern, however, can be decided by the reader.

Even though the empirical investigation did not show ‘resources’ as an important influencing factor that should be considered within the decision-making process of corporations’ internationalization and market exploitation strategies, it is proposed nonetheless that the factor should be included in future studies, since its relevance is based on theoretical and explicit practical foundations. Prospective empirical studies could be conducted with an increased sample size, for instance, to further assess the relevance that the factor ‘resources’ has in the decision-making process of corporations’ internationalization and market exploitation strategies. Future studies could also be supplemented with qualitative surveys, where experts could elaborate in depth on relevant influencing factors.

The empirical analysis thus shows that five indicators, namely ‘advantages based on local production activities’, ‘production costs’, ‘logistic costs’, ‘localization costs’, and ‘transaction costs’ determine the third process phase, the feasibility study, of corporations’

internationalization and market exploitation strategies. However, no evidence was found during the course of the empirical investigation that the indicator ‘resources’ significantly influences the third process phase of the decision-making process of corporations’ internationalization and market exploitation strategies.

Corporations should consequently consider the above-named influencing factors in their decision-making process about where and how to internationalize their production networks.

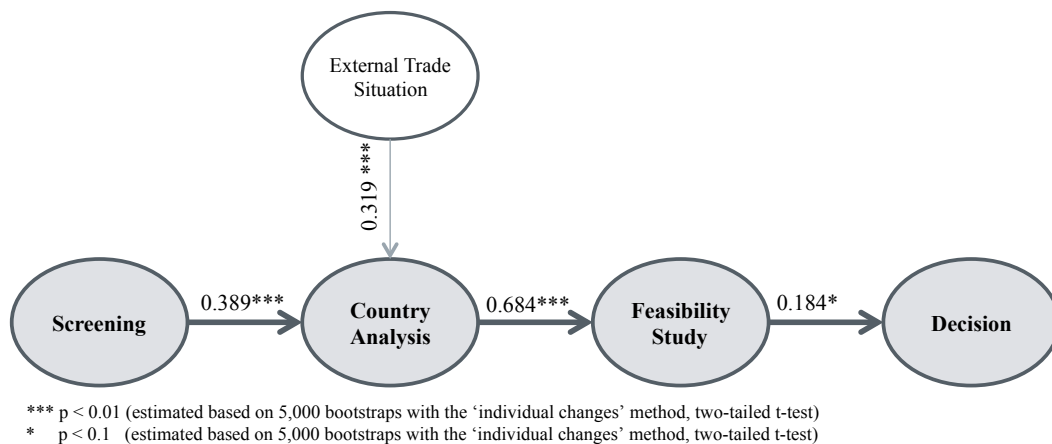
Quality criteria for the three major formative measurement models and one subordinated formative measurement model were assessed. A total of 21 indicators were estimated and evaluated. For 20 indicators, quality criteria were met. The results of the empirical investigation thus underline that the developed indicators significantly influence their respective constructs, which were conceptualized as different process steps of the decision-making process of corporations’ internationalization and market exploitation strategies. Within the context of this empirical investigation, only one indicator was found not to significantly influence its respective latent variable.

Since quality criteria of the formative measurement models were largely met, the empirical results discussed in this section form a solid base for subsequent examination of the structural model.

### **6.3. Empirical evaluation and discussion of the structural model**

Chapter 6.2 revealed that latent variables are measured reliably. Preconditions are thus set to examine the relations within the structural model. Figure 19 displays the different phases of the decision-making process of corporations’ internationalization and market exploitation strategies. The phases are manifested in the conceptual model by the latent variables ‘screening’, ‘country analysis’, ‘feasibility study’, and ‘decision’. Figure 19 presents the structural model with its path coefficients and appropriate statistical significance levels. The bootstrapping method ‘individual changes’ with 5,000 bootstraps was employed to evaluate whether the path coefficients are statistically significant.

Figure 19: Results of the structural model



First, the empirical assessment demonstrates that the path coefficient from the first phase of the decision-making process of corporations' internationalization and market exploitation strategies, the 'screening', to the second phase, the 'country analysis', is 0.389. With a t-value of 3.578, this result has high statistical significance ( $p < 0.01$ ) (see table 12).

Second, the construct 'country analysis', which represents the second process phase of the decision-making process, is further explained by the construct 'external trade situation'. The respective path coefficient is 0.319, and its t-value is 3.370, so it is highly statically significant (see table 12).

Third, the path coefficient from the second to the third process step, thus from 'country analysis' to 'feasibility study', is 0.684. It is also has high statistical significance with a t-value of 11.416, so the error probability is below 1% (see table 12).

The final construct 'decision', which represents the last process phase in the decision-making process of corporations' internationalization and market exploitation strategies, is explained by the construct 'feasibility study'. The path coefficient is 0.184, and its t-value is 1.818, so it is statistically significant (see table 12).

The assessment demonstrates that all path coefficients within the structural model are statistically significant. The structural model's path coefficients, which can be interpreted as standardized beta coefficients in regressions, thus show substantial to moderate effects with values of 0.389, 0.319, 0.684, and 0.184. This indicates that the exogenous constructs are associated with their respective endogenous constructs to a high extent (Hair et al., 2014, p. 173 et seq.).

### Discussion of the empirical results

The path coefficient between the construct ‘country analysis’ and its endogenous construct ‘feasibility’ is the most pronounced, which indicates that the construct ‘country analysis’ substantially contributes to explaining the endogenous construct ‘feasibility’.

In addition, the path coefficients between the constructs ‘screening’ and ‘country analysis’ and between ‘external trade situation’ and ‘country analysis’ indicate that the exogenous construct is associated with its endogenous construct to a significant extent.

Moreover, the path coefficient between the construct ‘feasibility study’ and ‘decision’ shows that the exogenous construct is associated with its endogenous construct to a certain extent, although at a considerably lower level.

The empirical findings thus clearly substantiate the developed decision-making process model with its four consecutive phases. The three central hypotheses, H1, H2, and H3 (see table 12), that characterize the sequence of the developed decision-making process of corporations’ internationalization and market exploitation strategies, with its different stages, can thus be confirmed. Hypothesis 4 can also be confirmed since the latent variable ‘external trade situation’ also significantly influences the latent variable ‘country analysis’ (see table 12).

Table 12: *Quality assessment of the structural model - Part One*

	Hypothesis	Path coefficient	t-value	
<b>H1</b>	Countries identified during the first phase, the screening and identification phase, of the decision-making process of corporations’ internationalization and market exploitation strategies as markets with the potential to be exploited more adequately when local production facilities are in place require further analysis in a second process phase, the country analysis.	0.389***	3.578	confirmed
<b>H2</b>	Countries that show potential in the second phase, the country analysis, to be exploited more effectively when local production activities are implemented require further analysis in the third phase of the decision-making process of corporations’ internationalization and market exploitation strategies, the feasibility study.	0.684***	11.416	confirmed
<b>H3</b>	Countries, which after the completion of the third phase, the feasibility study, demonstrate potential to be exploited more adequately by implementing feasible local production activities, should be assessed in the fourth and final phase of the decision-making process of corporations’ internationalization and market exploitation strategies, the decision stage.	0.184*	1.818	confirmed
<b>H4</b>	The construct ‘external trade situation’ has a significant impact on the construct ‘country analysis’.	0.319***	3.370	confirmed

\*\*\* p < 0.01 (estimated based on 5,000 bootstraps with the ‘individual changes’ method, two-tailed t-test)

\* p < 0.1 (estimated based on 5,000 bootstraps with the ‘individual changes’ method, two-tailed t-test)

Table 13 further displays the latent variables' coefficients of determination,  $R^2$ , which measure the model's predictive accuracy; the effect size,  $f^2$ , which shows the impact a construct has on the endogenous construct; and  $Q^2$ , which measures the model's predictive relevance.

*Table 13: Quality assessment of the structural model - Part Two*

Construct	$R^2$	$Q^2$	$f^2$ on		
			Country Analysis	Feasibility Study	Decision
<b>Screening</b>	-	-	0.124	-	-
<b>Country Analysis</b>	0.435	0.142	-	0.880	-
<b>External Trade Situation</b>	-	-	0.083	-	-
<b>Feasibility Study</b>	0.468	0.143	-	-	0.035
<b>Decision</b>	0.034	0.016	-	-	-

Some cells in the table are marked with ‘-’ (see table 13). In this case, no values could be evaluated, since  $R^2$  and  $Q^2$  values can only be assessed for endogenous constructs (see Tenenhaus, Vinci, Chatelin & Lauro, 2005, p. 174 et seq.).  $f^2$  values can only be obtained for latent variables, which are directly linked.

The coefficient of determination,  $R^2$ , which measures the model's predictive accuracy, is 0.435 for the latent variable ‘country analysis’. The  $R^2$  value of the latent variable ‘feasibility study’ is 0.468. Finally, the  $R^2$  value of the latent variable ‘decision’ is 0.034 (see table 13).

$Q^2$ , which measures the model's predictive relevance, is 0.142 for the latent variable ‘country analysis’. The  $Q^2$  value is 0.143 for the latent variable ‘feasibility study’ and 0.016 for the latent variable ‘decision’ (see table 13).

A final quality criteria, which can be assessed when evaluating the structural model, is  $f^2$  values (see table 13). The effect that the latent variable ‘screening’ has on the latent variable ‘country analysis’ is moderate, with an effect size of 0.124. The effect that the latent variable ‘country analysis’ has on the latent variable ‘feasibility study’ is strong, with an effect size of

0.880. The latent variable ‘external trade situation’ has a limited effect on the latent variable ‘country analysis’, with an effect size of 0.083. Further, the latent variable ‘feasibility study’ has only a limited effect on the latent variable ‘decision’, with an effect size of 0.035.

#### *Discussion of the empirical results*

The  $R^2$  of the latent variable ‘country analysis’, with a value of 0.435, and the  $R^2$  of the latent variable ‘feasibility study,’ with a value of 0.468, show good results and accordingly express excellent predictive accuracy of the conceptualized model. The developed decision-making process of corporations’ internationalization and market strategies can hence explain 43.5% of the variance of the construct ‘country analysis’ and 46.8% of the variance of the variable ‘feasibility study’. These values demonstrate that the model explains particularly well the first three process steps of the decision-making process of corporations’ internationalization and market strategies. The  $R^2$  of the latent variable ‘decision’, with a value of 0.034, demonstrates a considerable lower value, indicating that only 3.4% of the latent variable’s variance can be explained by the latent variable ‘feasibility study’. This empirical finding clearly suggests that further influencing factors that explain a corporation’s final decision about the implementation of sales-driven production activities abroad are missing.

The questionnaire includes a final open-ended question, which asks respondents to name additional influencing factors and/or process steps they consider relevant to integrate in the decision-making process of corporations’ internationalization and market exploitation strategies. The answers to this open-ended question are examined in more detail in the following. This increases the understanding on whether additional influencing factors ought to be integrated in the decision-making process of corporations’ internationalization and market exploitation strategies to explain more of the variance of the latent variable ‘decision’. Before this, however, the other quality criteria are briefly discussed.

A quality criterion that underlines the model’s predictive relevance is its good  $Q^2$  values. All  $Q^2$  values of the structural model are above 0, which indicates the model’s predictive relevance (see table 13).

A final quality criterion assessed when evaluating the structural model is its  $f^2$  values. The structural model’s  $f^2$  values indicate that the effects that constructs have on their endogenous constructs in the structural model vary from small to large (see table 13). The effect that the latent variable ‘feasibility study’ has on the latent variable ‘decision’ is small, with an  $f^2$  value

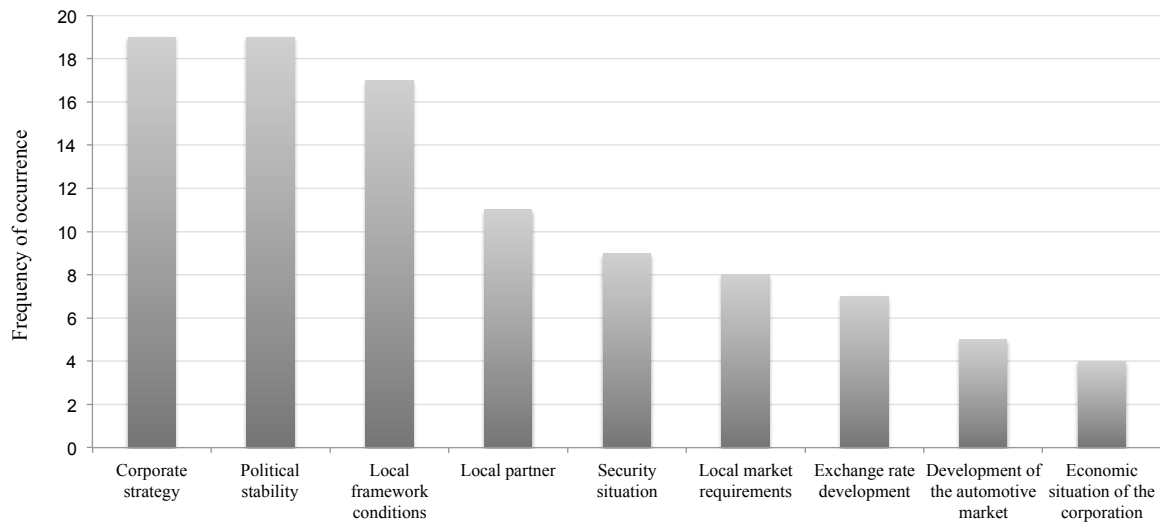


of 0.035. The latent variable 'external trade situation' likewise has a small effect on the latent variable 'country analysis', with an  $f^2$  value of 0.083. With an  $f^2$  value of 0.124, the latent variable 'screening' also has a small effect on the construct 'country analysis'. The latent variable 'country analysis', however, has a large effect on the latent variable 'feasibility study', with an effect size of 0.880.

As mentioned, the open-ended question will now be analyzed to examine whether additional influencing factors ought to be integrated within the decision-making process of corporations' internationalization and market exploitation strategies to explain more of the variance of the latent variable 'decision'.

A total of 53 respondents answered the questionnaire's open-ended question to propose additional influencing factors that should be considered in the decision-making process of corporations' internationalization and market exploitation strategies. To analyze the given answers systematically and statistically, an inductive content analysis was conducted. From the given answers, categories were deduced and inductive category development was carried out (Mayring, 2000). One category deduced from the given answers is termed, for example, 'corporate strategy'. Respondents often directly stated that corporations' general strategies considerably influence the implementation of sales-driven production activities abroad. However, respondents also stated that the prioritization of strategic projects directly interferes in the decision-making process of corporations' internationalization and market exploitation strategies. Although the keyword 'corporate strategy' was not explicitly mentioned, statements like this were allocated to the subject field 'corporate strategy'. Another cluster was, for example, termed 'local framework conditions'. Respondents often directly stated that the consideration of local framework conditions is essential to make an informed decision about production activities abroad. However, some respondents explicitly noted specific local framework conditions that require consideration, such as the availability of qualified labor in the target market. These answers were associated with the subject area 'local framework conditions'. For the inductive content analysis and its statistical evaluation, if a respondent listed several local framework conditions that need to be considered in the decision-making process, the answer was counted as one respondent who suggested considering the indicator 'local framework conditions'. The nine most frequently mentioned categories that were mentioned by at least four survey participants are analyzed in more detail in the following. Figure 20 lists the mentioned categories by decreasing frequency.

Figure 20: Additional influencing factors



Source: Own figure.

One of the most frequently mentioned influencing factors respondents proposed should be considered during the decision-making process of corporations' internationalization and market exploitation strategies, is 'corporate strategy', which was named 19 times (see figure 20). This influencing factor was not part of the developed conceptual model and may thus be a further explanatory approach as to why the explained variance of the construct 'decision' was low.

Respondents stated that a general corporate strategy influences a corporation's strategic fields, which implies that it also affects its internationalization strategy. This seems plausible since a corporation that follows, for instance, a corporate strategy that emphasizes high utilization of domestic plant capacity would likely be more hesitant to implement new production activities abroad. On the other hand, a corporation that follows a corporate strategy that aims to achieve volume leadership may be more willing to exploit volume potential, even if production activities would need to be implemented abroad. A corporate strategy probably also shapes the commitment that corporations show to investment in international markets that demonstrate growth potential. Whereas some corporations observe the development of emerging markets before investing in them, other corporations tend to make investments at an early stage to exploit first-mover advantages.

It may thus be interesting to consider the influencing factor 'corporate strategy' in future studies of the decision-making process of corporations' internationalization and market exploitation strategies. Insights could be attained to understand whether this influencing

factor considerably influences corporations' internationalization and market exploitation strategies and whether the incorporation of this factor would increase the explained variance of the process model's final step, the decision.

An additional frequently mentioned (19 times) influencing factor that respondents suggested for consideration in the decision-making process of corporations' internationalization and market exploitation strategies is 'political stability' (see figure 20). 'Political stability' was not integrated as an influencing factor in the established conceptual model and may thus be one explanatory approach to why the explained variance of the latent variable 'decision' is considerably low.

It has been discussed that legislative changes, specifically in the context of foreign trade, are often found to be the motivation for corporations to consider sales-driven production activities abroad. In 2016, the Algerian government, for example, introduced import license restrictions on automobiles to reduce automobile imports and thus stimulate local production. The government defined a quota for imported vehicles for 2016, which is equivalent to about half of the units that were imported in 2015 (Oxford Business Group, 2016). Accordingly, for OEMs to meet the demand of the Algerian market effectively and adequately exploit its potential instead of distributing only half of the potential sales volume, they need to reflect on the necessity of local production activities. It is probable that the established decision-making process of corporations' internationalization and market exploitation strategies would indicate the need to implement production activities in Algeria, since half of the possible sales volume would otherwise be lost. However, political framework conditions, particularly in growing markets, are often quite volatile. Legislative changes can be adapted quickly, which commonly originates in rapidly changing political elites within government agencies such as the ministry of trade, industry, or finance, all of which are institutions that typically shape a country's foreign trade policy. The foundation on which a decision about local production activities might be based, such as a local legislative requirement, can thus appear to be fragile. It can hence be presumed that factors other than a comprehensive feasibility study with a comprehensive business case can serve as the basis for a decision on production activities abroad. Corporations' board of directors might thus also be influenced by the target markets' political stability.

Consequently, it may make sense to explicitly consider the influencing factor 'political stability'. Future studies could integrate this additional factor in the established conceptual

model to analyze whether the incorporation of this indicator increases the explained variance of the latent variable ‘decision’.

The third most mentioned factor (17 times) that respondents proposed for consideration in the process model is ‘local framework conditions’ (see figure 20). However, this factor is already part of the conceptual model as many dimensions of this indicator are integrated in the established conceptual model. One dimension that was explicitly named by a respondent is a country’s economic stability. The indicator ‘economic performance’ is already integrated into the conceptual model. The second process step, the country analysis, evaluates a country’s economic situation. It is recommended that a country’s economic development should be evaluated by analyzing the development of its GDP, GDP per capita, and its inflation rate. Moreover, another dimension of the factor ‘local framework conditions’ is integrated in the established conceptual model as part of the second process phase, which includes an examination of a target country’s production activities. An evaluation of local production activities is meant to enable corporations to assess whether implementing production activities in a specific target country is feasible. In this context, information should be gathered about, for example, whether a qualified workforce is available or if infrastructural conditions are sufficient. Thus, local framework conditions are considered. Another indicator incorporated within the second phase of the decision-making process of corporations’ internationalization and market exploitation strategies is ‘local supplier industry’. This indicator focuses on an additional important dimension of local framework conditions and enables corporations to evaluate whether a sufficient supplier base exists in a particular market, which is necessary to ensure the feasibility of production activities abroad.

The fact that the indicator ‘local framework conditions’ was mentioned 15 times underlines the necessity of considering local framework conditions in the decision-making process of corporations’ internationalization and market exploitation strategies. Hence, it substantiates the relevance of integrating factors such as a country’s ‘economic performance’, its ‘production activities’, its ‘local supplier industry’, and its ‘external trade situation’.

However, since local framework conditions are already integrated in the conceptual model, this aspect does not seem to have explanatory power to justify the low  $R^2$  value of the latent variable ‘decision’.

The fourth most mentioned influencing factor (11 times) that respondents suggested should be integrated in the decision-making process of corporations’ internationalization and market

exploitation strategies is an analysis of the ‘local partner’ (see figure 20). While this influencing factor was not explicitly included in the established conceptual model, the importance of reflecting upon the implications cooperation with external partners may entail was integrated by including the indicator ‘transaction costs’ in the third process phase. In the questionnaire, examples were given to explain that external as well as internal transaction costs should be considered in this context. Further, an example was given that external transaction costs include, for instance, costs that occur due to high coordination effort when cooperating with external partners. Implications of cooperation with external partners for corporations during the process of internationalization and market exploitation are thus to some extent already included in the conceptual model.

However, survey respondents proposed the integration of a comprehensive analysis of external partners. It was suggested that factors to be assessed should include whether a partner is financially sound, whether a partner demonstrates sufficient experience and expertise, and whether a partner is motivated to implement production activities. Future studies could thus evaluate whether it is reasonable to explicitly integrate the factor ‘local partner’ as an additional influencing factor in the decision-making process of corporations’ internationalization and market exploitation strategies. The integration of this factor could be a chance to increase the explained variance of the construct ‘decision’, which is the last process step of the decision-making process of corporations’ internationalization and market exploitation strategies.

Nine respondents recommended including the ‘security situation’ of respective target countries in the decision-making process of corporations’ internationalization and market exploitation strategies (see figure 20). Similar to what was previously elaborated, the factor ‘security situation’ is not explicitly part of the established conceptual model. However, considerations about the implications of the security situation of target countries have been considered. The factor ‘transaction costs’ has been integrated in the conceptual model and the empirical results demonstrate the relevance that external and internal transaction costs have on corporations’ internationalization strategies. Within the questionnaire an explicit example for internal transaction costs has been given, namely whether a decreasing motivation of employees which can be drawn back to foreign assignments in countries with a tense security situation, have to be considered within the decision-making process of corporations’ internationalization and market exploitation strategies. Implications that security situations of target countries have on the decision-making process of corporations’ internationalization and

market exploitation strategies are thus at least to some extent considered in the conceptual model.

However, future studies could reflect upon integrating an additional explicit influencing factor, namely ‘security situation’. The inclusion of this factor may be an opportunity to increase the  $R^2$  of the latent variable ‘decision’ and thus also support corporations implementing inclusive internationalization and market exploitation strategies.

Survey participants named additional influencing factors that ought to be considered in the decision-making process of corporations’ internationalization and market exploitation strategies: consideration of ‘local market requirements’, which was mentioned eight times, incorporation of ‘exchange rate development’, which was stated seven times, and ‘development of the automotive market’, which was raised five times (see figure 20).

During the conceptualization of the process model, it was argued that the consideration of local market requirements is essential during the entire decision-making process of corporations’ internationalization and market exploitation strategies. Therefore, the influencing factor ‘local requirements’ is explicitly integrated in the conceptual model in the first step, the screening and identification phase, as well as the second step, where a country analysis is undertaken. The empirical results substantiate the relevance of ‘local requirements’ for corporations’ internationalization and market exploitation strategies. Since the factor ‘local requirements’ is already integrated in the established conceptual model, this strand does not offer explanations as to why the  $R^2$  value of the latent variable ‘decision’ is low.

Moreover, respondents proposed considering the exchange rate development of potential target markets in the decision-making process of corporations’ internationalization and market exploitation strategies. However, the exchange rate development is already integrated in the conceptual model as a dimension of the influencing factor ‘economic performance’. It has been shown that as part of the second step of a corporation’s market exploitation process, it is necessary to assess the ‘economic performance’ of a potential target market. During the conceptualization of the process model in Chapter 5.2.1, it was proposed that the development of a country’s GDP, GDP per capita, inflation rate, and exchange rate should be analyzed to evaluate a country’s general economic performance. The factor ‘exchange rate development’ is thus integrated in the conceptual model, and its relevance is validated by the empirical results. A possible explanation as to why seven respondents explicitly mentioned the necessity of considering the influencing factor ‘exchange rate development’ is that no further explanations were given in the questionnaire in regard to how the economic performance of a

country should be assessed and which indicators should be analyzed. The fact that the exchange rate development is considered when analyzing the factor ‘economic performance’ was not stated explicitly, which may explain why respondents suggest incorporating this in responses to the open-ended question. Since this factor is already taken into account in the conceptual model when analyzing a country’s economic performance, it is not necessary to integrate the factor ‘exchange rate development’ as a separate, additional influencing factor. It would, however, be interesting to see whether future empirical studies that explicitly state the sub-dimensions of the factor ‘economic performance’ in the questionnaire attain a higher  $R^2$  value for the latent variable ‘decision’.

Respondents also mentioned the importance of reflecting upon the development of the automotive market in the country considered for investment as part of the decision-making process of corporations’ internationalization and market exploitation strategies. The drafted conceptual model incorporates indicators such as ‘market potential’ and ‘development of the automotive market’ as relevant influencing factors to consider in the first phase and second phase of the process model. The results of the empirical investigation confirm the factors’ relevance. Therefore, it is not reasonable to associate this aspect with the low  $R^2$  value of the latent variable ‘decision’.

Another four survey participants have raised an additional interesting point by arguing that it is also essential to consider a corporation’s general situation (see figure 20). It was mentioned several times that factors that are not directly related to a specific project may, however, significantly influence a corporation’s project-specific decisions. An example of this is the Volkswagen emissions scandal that surfaces at the end of 2015. An respondent stated that since the extent and consequences of the emission scandal cannot yet be predicted, it can be assumed that investments in the future, such in the development of production activities abroad, which would enable a corporation with a mid- to long-term perspective to exploit international markets effectively may not be realized. Therefore, a corporate reality may significantly influence whether final project decisions are made. This implies that even though the decision-making process of corporations’ internationalization and market exploitation strategies would clearly indicate the potential of production activities abroad to exploit international markets effectively, a positive decision to implement such activities cannot necessarily be expected. In addition, a feasibility study on local production activities that has resulted in a positive business case and would thus improve a corporation’s profitability does not automatically imply a positive decision to implement production

activities abroad. Thus, the argument is that company-specific framework conditions, even if they have no direct connection to specific projects, may significantly influence whether project-specific decisions are made on whether production activities abroad will be implemented.

A possible explanation as to why the variance of the construct ‘decision’ can be explained only to a limited extent might thus be traced back to the fact that project-specific decisions must always be made in the light of corporations’ realities, which was not considered in the conceptual model.

Future research could hence examine the last process step involving decision-making in more detail. Assessments ought to be undertaken as to whether integration of the factor ‘economic situation of the corporation’ results in an augmented  $R^2$  value of the latent variable ‘decision’, which would increase the explained variance of the last and important process step of corporations’ decision-making process in the context of internationalization and market exploitation.

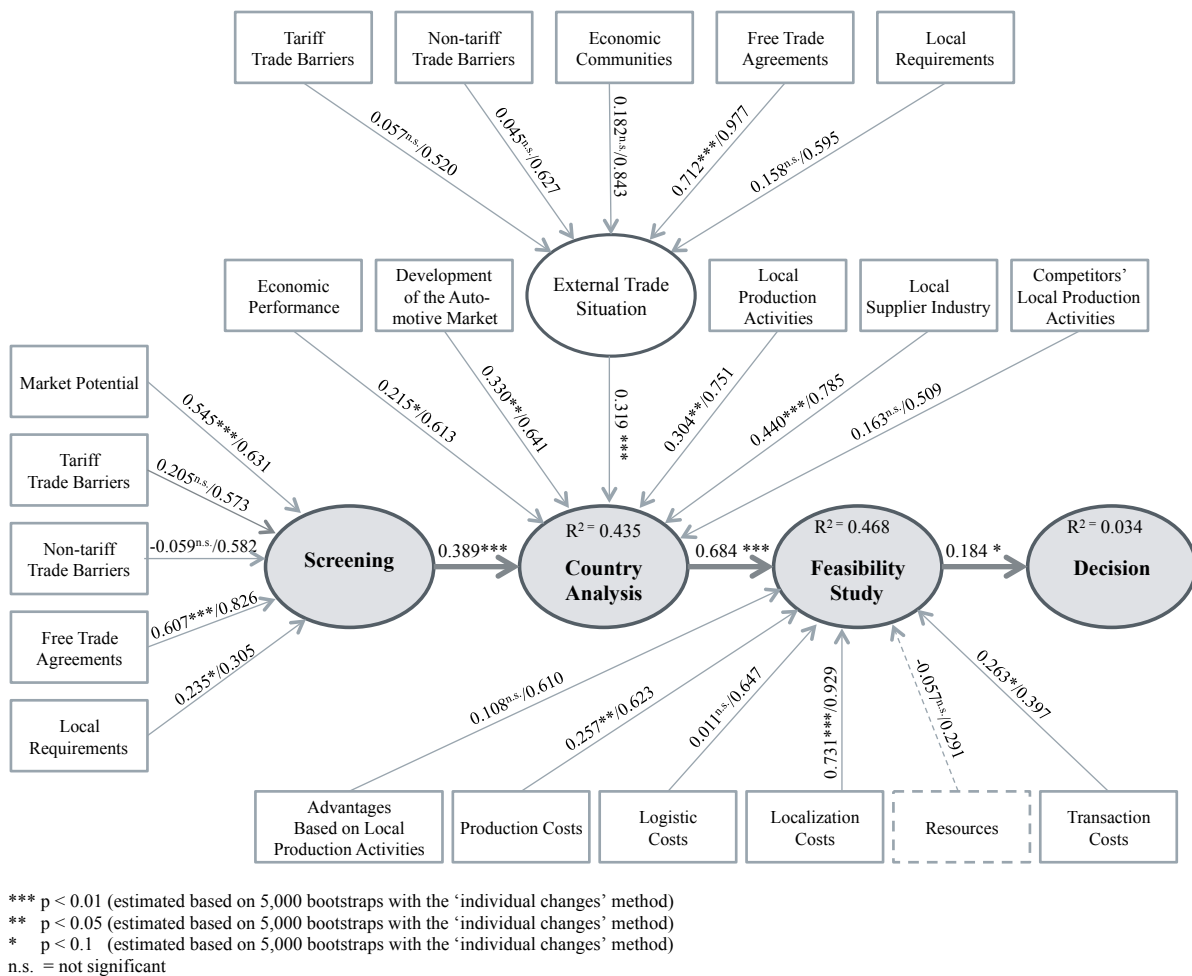
Future research could thus be initiated to analyze which additional factors need to be integrated in the decision-making process of a corporation’s internationalization and market exploitation strategy to increase the explained variance of the latent variables. The first indications generated propose the potential consideration of factors such as ‘political stability’ and ‘security situation’ of target markets as well as factors such as ‘local partner’, ‘corporate strategy’ and ‘economic situation of the corporation’.

#### **6.4. Review: evaluation of the overall conceptual model**

Figure 21 comprehensively pictures the outer and inner model and thus exhibits the overall conceptual model with all its constructs and construct items that was developed to conceptualize the decision-making process of corporations’ internationalization and market exploitation strategies. It reveals the results of the empirical investigation, as it shows the indicators’ outer weights, appropriate statistical significance levels, and outer loadings (outer weight <sup>statistical significance level</sup>/outer loading). Further, it exhibits the inner model’s path coefficients and appropriate statistical significance levels (path coefficient <sup>statistical significance level</sup>) and the constructs’  $R^2$  values.



Figure 21: Evaluation of the conceptual model



The empirical findings demonstrate that the conceptual model displays the decision-making process of corporations' internationalization and market exploitation strategies very well. The sequence of the process steps of the decision-making process was confirmed by the empirical investigation, which is displayed by the statistically significant path coefficients. Corporations should thus begin market exploitation and internationalization processes by screening international markets to identify markets that could be exploited more adequately if local production activities were in place. It is suggested that markets identified in the first stage of the market exploitation process, the screening and identification phase as having potential to be exploited more adequately with local production activities should be analyzed in more detail. Accordingly, it is propositioned that a country analysis should be conducted in a second process step. The country analysis should assess whether a country could be exploited more effectively if production activities were carried out locally and whether the country offers relevant framework conditions to install local production facilities. If this is found to be true, it is recommended that the next and thus third step of the market exploitation process be

initiated. In this step, a feasibility study, which results inter alia in a business case, should be conducted. Conceptual as well as financial evaluations should be undertaken for a detailed analysis of which advantages local production activities would yield for a corporation and for an evaluation of costs. If the feasibility study demonstrates potential to realize feasible production activities abroad, a final, fourth step is suggested for a corporation to decide whether it is ultimately willing to implement production activities abroad.

The empirical investigation also established that the indicators that were identified and assigned to the various phases of the market exploitation process are mainly those that significantly influence corporations' decision-making process in the context of internationalization and market exploitation strategies.

The empirical results confirm that the influencing factors 'market potential', 'tariff trade barriers', 'non-tariff trade barriers', 'free trade agreements', and 'local requirements' significantly influence the first step of the decision-making process of corporations' internationalization and market exploitation strategies, the screening and identification phase. This is displayed by the indicators' outer weights, their statistical significance levels, and their outer loadings (outer weight <sup>statistical significance level</sup>/outer loading).

For the second process step, the indicators 'economic performance', 'development of the automotive market', 'external trade situation', 'competitors' local production activities', 'local production activities', and 'local supplier industry' were empirically proven to significantly impact the country analysis. Again, this can be seen by the indicators' outer weights, their statistical significance levels, and their outer loadings (outer weight <sup>statistical significance level</sup>/outer loading). The empirical assessment further showed that the dimensions 'tariff trade barriers', 'non-tariff trade barriers', 'economic communities', 'free trade agreements', and 'local requirements' determine the construct 'external trade situation', which influences the second process step, the country analysis.

The empirical evaluation of the indicators that determine the third process phase revealed that the factors 'advantages based on local production activities', 'production costs', 'logistic costs', 'localization costs', and 'transaction costs' significantly influence the outcome of the feasibility study. The indicators' outer weights, their statistical significance levels, and outer loadings depict this (outer weight <sup>statistical significance level</sup>/outer loading). However, in contrast to what has been assumed a priori, the empirical investigation did not show that the indicator 'resources' has an impact on the feasibility study based on the indicators' quality criteria,

(0.057<sup>n.s.</sup>/0.291). It should thus be questioned whether corporations should incorporate this influencing factor into their decision-making process (see figure 21).

The empirical results with high  $R^2$  values and  $Q^2$  values above 0 moreover indicate the model's predictive accuracy and predictive relevance. Only for the last process step, the decision, the  $R^2$  value of 0.034 is rather small. Possible reasons for this were pointed out in Chapter 6.3. This may lead corporations to integrate further influencing factors in the decision-making process of internationalization and market exploitation strategies.

## **7. Conclusion**

It is the objective of this research to develop a decision-making process model for corporations' internationalization and market exploitation strategies. Particularly, the research is aimed at supporting corporations to identify markets with the potential to be exploited more effectively if local production activities were in place.

In today's globalizing world economy, the international economic environment is being significantly altered as economic powers shifting and demand patterns change, so it is essential for corporations to position themselves optimally within the international business environment. Thus, to remain competitive, corporations need to operate successfully within an international setting. The potential of emerging markets, which demonstrate increasing importance within the world economy, is hence suggested to be exploited adequately. However, while the world economy is continuously globalizing, some markets, predominantly emerging markets, show the tendency to be closed off. Despite this, it has been argued that corporations should by no means let the potential of these markets lie fallow. Consequently, adequate market exploitation strategies ought to be implemented to exploit international markets effectively. It is thus proposed that corporations should promote appropriate internationalization and market exploitation strategies to remain competitive in the international business environment.

Internationalization and market exploitation strategies have been studied extensively. Theoretical concepts and empirical studies have elaborated on decisive criteria in regard to why corporations internationalize and which market strategies should be applied to exploit

international markets effectively. However, a comprehensive decision-making process, which 1) includes all relevant influencing factors that corporations need to consider when evaluating which market exploitation strategy to apply to exploit international markets effectively, 2) simultaneously ensures practical applicability, and 3) is based on empirical research has so far not been achieved. Thus, this research is aimed at developing a decision-making process for corporations' internationalization and market exploitation strategies that includes all relevant influencing factors and is structured in reasonable process steps to keep it in manageable bounds to ensure its practical applicability.

In the following, a brief synthesis of the empirical results of the research is provided. Subsequently, theoretical and managerial implications are presented in Chapters 7.2 and 7.3. Chapter 7.4 states limitations of the study and outlines directions for future research. Finally, the achievements made in the course of the research are summarized.

### **7.1. Synthesis of the empirical findings**

The main empirical results are summarized and the empirical outcomes are evaluated and discussed in Chapters 6.2, 6.3, and 6.4. This section synthesizes the empirical findings to answer the main research question, namely how a comprehensive decision-making process for corporations' internationalization and market exploitation strategies should be modeled. The empirical investigation revealed that the decision-making process of corporations' internationalization and market exploitation strategies ought to be structured in four consecutive process steps in which influencing factors are considered in a phase-specific manner to keep the process model in manageable bounds. The empirical findings show that international markets that demonstrate potential to be exploited more effectively if local production facilities were implemented should be identified in the screening and identification phase. Preferably, a corporation's strategic unit ought to analyze international markets, considering the influencing factors 'market potential', 'tariff trade barriers', 'non-tariff trade barriers', 'free trade agreements', and 'local requirements', all of which are indicators that were first conceptualized and later confirmed by the empirical results. If after this first process step an international market demonstrates potential to be exploited more adequately with the implementation of local production facilities, the empirical results suggest that a further market-specific analysis should be undertaken in a second process step, again preferentially carried out by a corporation's strategic unit. The empirical investigation showed

that automotive experts suggest undertaking a country analysis that considers the market-specific influencing factors ‘economic performance’, ‘development of the automotive market’, ‘external trade situation’, ‘competitors’ local production activities’, ‘local production activities’, and ‘local supplier industry’. If a market still shows potential for more effective exploitation with the implementation of local production activities after this second process step, a cross-departmental feasibility study of local production activities should be carried out in a third process step. In this context, the empirical analysis showed that the following case-specific influencing factors require further analysis: ‘advantages based on local production activities’, ‘production costs’, ‘logistic costs’ ‘localization costs’, and ‘transaction costs’. Finally, the empirical investigation results indicate that the result of this feasibility study should be presented within a final process step to a corporation’s board of management which will make a final decision about country-specific market exploitation strategies.

## **7.2. Theoretical implications**

The theoretical review described in Chapter 3 revealed that many theoretical approaches have elaborated on various aspects of corporations’ internationalization and market exploitation strategies. It is necessary to develop a comprehensive decision-making process for corporations’ internationalization and market exploitation strategies since existing concepts demonstrate a partial analytical character, lack practical applicability, and thus have a limited connection with business realities (Meyer, 2000, p. 100).

The partial analytical character of existing theoretical approaches is discussed in detail in Chapter 3, which outlines that theoretical concepts aiming to explain corporations’ internationalization strategies often focus explicitly on particular dimensions (Macharzina & Oesterle, 1997). A limited selection of aspects has hence been frequently considered to explain corporations’ internationalization and market exploitation strategies. In one of the first studies, Dunning (1973, 1977), with his eclectic paradigm, attempted to develop a theoretical concept that explains corporations’ internationalization and market exploitation strategies, by incorporating ideas from diverse theoretical strands. Although this approach has been criticized for being far too general, the empirical findings of the present research underscore the relevance of including several theoretical elements to establish a reasonable all-encompassing decision-making process model. It has been shown that various influencing factors determine the decision-making process of corporations’ internationalization and

market exploitation strategies. Influencing factors that have been determined as decisive have generally been derived from diverse dimensions of various theoretical schools and are thus in line with previous research. The relevance of the factor ‘market potential’ has, for example, been demonstrated widely in previous research (see for example Buerki et al., 2014; Meyer, 1960). Further, the significance of location-specific aspects such as trade barriers or local requirements has been revealed previously (see for example Tesch, 1980; Ulrich et al., 2014). The present research also demonstrated that relevant influencing factors that determine the decision-making process of corporations’ internationalization and market exploitation strategies cannot be assigned to a single theoretical school of thought. Thus, no single theoretical concept has been proven as the best for describing the internationalization and market exploitation process of corporations. Instead, diverse dimensions from different theoretical school of thoughts jointly form an inclusive decision-making process for corporations’ internationalization and market exploitation strategies.

Moreover, the results of the research project have disclosed that the lack of consideration of comprehensive market-specific factors is a major shortcoming of existing theoretical concepts since it has been shown that these factors considerably impact corporations’ internationalization and market exploitation strategies (Hennart, 2009). In addition, the empirical investigation revealed the important role that economic communities and free trade agreements play in corporations’ internationalization and market exploitation strategies, an aspect that existing theoretical concepts do not consider sufficiently (Meyer, 2000, p. 103 et seq.; Welge & Holtbrügge, 1997, p. 1054 et seq.).

With the developed decision-making model, the present research thus aims to comply with the necessity of developing a comprehensive and inclusive decision-making process model that corporations can follow when developing their internationalization and market exploitation strategies (Hill et al., 1990).

Further theoretical implications can be derived for theoretical conceptualizations of internationalization process models. Whereas Aharoni’s (1966) phase model offers valuable insights, the developed conceptual model is primarily based on models established by Gann (1996) and Sternad et al. (2013). However, it has been demonstrated that it is advisable to modify existing process models. It has been shown that splitting up what is commonly termed the ‘investigation phase’ in existing process models into two separate process phases is a crucial step of modeling a concept to ensure practical applicability. Thus, the findings imply that a reasonable sub-division of the decision-making process model of corporations’

internationalization and market exploitation strategies is necessary to assure practical implementation and should therefore be part of future theoretical and practical considerations.

It is the aim of the research to develop a comprehensive decision-making process model to support corporations during the process of internationalization and market exploitation that demonstrates practical relevance and thus ensures practical applicability. A target to accomplish this is structuring the process within manageable bounds. Different phases have been established, and decisive influencing factors to be evaluated in the respective phases have been assigned accordingly. The established decision-making model, which is empirically proven, recommends that corporations follow a four-staged process to evaluate the respective developed indicators and make a decision about internationalization and market exploitation strategies.

### **7.3. Managerial implications**

One of the most critical shortcomings of existing concepts that explain internationalization processes of corporations is their limited practical relevance and applicability. Only very rarely are recommendations offered for corporations wishing to internationalize. In particular, in the context of globalization, where framework conditions of the global economy are in constant upheaval, scientific support for structuring the decision-making process of corporations' internationalization and market exploitation strategies is helpful. By undertaking this research, the aim was to reduce the communication gap that currently exists between academia and practice (Corley, 1992; Meyer, 2000, p. 100 et seq.).

Hence, the goal is to develop a decision-making process for corporations' internationalization and market exploitation strategies to effectively support corporations to structure their internationalization processes. To achieve this and thus reduce the communication gap between academia and practice, a four-staged decision-making process model is developed. Relevant influencing factors for each phase of the decision-making process were determined. An empirical investigation was conducted to empirically verify the conceptual model's relevance and ensure its practical applicability. The empirical study was undertaken within a German automotive group and thus within the automotive industry, an industrial branch where internationalizing tendencies play a prominent role. Experts who deal with international business activities in their daily business routines were asked to evaluate the conceptual model and its influencing factors. The empirical assessment confirms that the

decision-making process of corporations' internationalization and market exploitation strategies should consist of four process phases, namely 'screening', 'country analysis', 'feasibility study', and 'decision'. Moreover, most of the influencing variables that should be taken into consideration in the various stages of the process model were validated. The developed process model thus explicitly demonstrates practical relevance. Accordingly, corporations can apply the developed decision-making process model to identify markets that could be exploited more adequately if local production activities were in place.

It is important to note that close attention has been paid to develop a decision-making process that effectively supports corporations in their internationalization and market exploitation strategies within daily business routines. Therefore, variables that influence the various phases of the model have been identified. It has moreover been explained which departments within a corporation should generally handle relevant influencing factor-specific information. Moreover, indications have been given in regard to sources of relevant factor-specific information if that is not yet available within a corporation. This is meant to ensure practical applicability. To further promote professional application of the model, attention was paid to keeping the identification and evaluation process of market exploitation within manageable bounds. This can particularly be observed in the first two phases of the developed model, which can be undertaken with a limited amount of resources. It is suggested that the strategic unit of a corporation should primarily carry out these process steps and that this unit should rely only to a minor extent on input from other business units. This limits the effort a corporation has to make during the identification and evaluation processes in the context of market exploitation. Further, this approach ensures that only countries that are found to have potential for more adequate exploitation with the implementation of local production facilities after the first two process steps will be analyzed in depth by a cross-departmental team, which demands significant resources. As an additional dimension to enhance practical applicability, organizational insights are provided in regard to how a corporation's market exploitation process should be implemented in terms of organizational requirements. Relevant participating parties are named, responsibilities are allocated, and process-related workflows are proposed. Thus, the method in which market exploitation processes should be carried out effectively is suggested.

Finally, it is necessary to mention that although the model was established using the example of the automotive industry, the developed decision-making process of corporations' internationalization and market exploitation strategies can also be applied to other industries. However, industry-specific adaptations may be necessary. Sector-specific indicators such as



‘development of the automotive market’ would need to be substituted with an appropriate alternative depending on the industry.

#### **7.4. Limitations and future research**

The aim of this research project is to develop a decision-making process model to support corporations in the process of internationalization and market exploitation. Particular focus has been placed on developing a model that can assist corporations in identifying international markets that can be exploited adequately only with the implementation of a local production strategy. The established process thus does not encompass all dimensions corporations reflect on as part of their internationalization strategies. Since the focus is on identifying markets that require sales-motivated production activities, the process is not adequate to support corporations seeking to identify international production locations, which would, for example, generate cost savings or establish a natural hedge, which are also aspects corporations have to reflect on during the process of internationalization to better position themselves within the international competitive environment. Future research could focus on these dimensions of corporations’ internationalization process. Prospective studies could, for example, aim at developing similar process models by identifying relevant influencing factors and assigning these to appropriate process phases.

Second, the process model for corporations’ internationalization and market exploitation strategies was developed using the example of the automotive industry. Influencing factors partially show direct references to this specific industry branch. However, the developed process model can be adapted so that corporations of other industry branches can apply it in their processes of internationalization and market exploitation. Automotive-specific influencing factors, such as ‘development of the automotive market’, would have to be replaced and set in a respective industry-relevant context. The empirical investigation undertaken to evaluate the developed process model was carried out within a German automotive group, which thus limits the generalizability of this research. Future studies could analyze whether the process, which would need to be adapted, as previously mentioned, so that it fits other industry-specific contexts, would also be empirically verified within other industry branches. Moreover, it would be interesting to analyze the established process model across industries to explore parallels and differences regarding internationalization and market exploitation processes.

A third limitation also needs to be considered. A decision-making process of corporations' internationalization and market exploitation strategies is conceptualized in this research. To ensure its practical applicability and relevance, an empirical investigation was undertaken to verify the established process model. The empirical survey was administered to experts within a German automotive group, which implies the risk of key informant bias. To mitigate this risk, specialists working for five of the group's autonomous brands and specialists working directly for the group were targeted as survey respondents. Moreover, an attempt was made to obtain a cross-departmental and cross-hierarchical sample. Nonetheless, the fact that the survey has been carried out within a single automotive group limits the empirical results with respect to their generalizability. Other corporations may be confronted with different conditions in other organizational settings, which could require adaptations of their internationalization and market exploitation process. Thus, it would be interesting to analyze corporations' internationalization and market exploitation processes across the automotive industry in different organizations to investigate whether the established process is applicable to other corporations within the industry.

Fourth, the sample size is limited, as it contains 115 observations. However, this limitation was consciously accepted since it was the aim to interview experts that demonstrate a high level of expertise in the context of internationalization. Accordingly, all the experts surveyed develop internationalization and market exploitation strategies in their daily business routines. Nonetheless, future research should consider expansion to other corporations to extend the number of observations in the sample.

Finally, statistical analysis of the empirical survey results substantiated the established decision-making process model of corporations' internationalization and market exploitation strategies. Empirical evidence was attained for the sequence of the various phases of the process model. Further, almost all of the established influencing factors could be empirically verified. However, the statistical significance levels of some influencing factors were not pronounced. Future research could evaluate whether an increased sample size would have an effect on the statistical significance levels.

Although most of the developed influencing factors could be empirically verified, no empirical evidence was provided for one influencing factor as a relevant aspect corporations ought to consider within the process of internationalization and market exploitation. This is discussed in detail in Chapter 6.2.3, where the empirical results are evaluated and explanations are provided. Since PLS-SEM analysis with a limited sample size implies the risk of rejection of certain effects, even if these effects actually exist, future studies could

assess the established model with a larger sample size to examine whether rejected effects need to be confirmed and whether the statistical significance level can be increased (Nitzl, 2016). During this research, no empirical evidence was found to reinforce the relevance of the influencing factor ‘resources’. This is unexpected since automotive experts explicitly suggested the opposite in preliminary talks and attributed major importance to this factor. Therefore, the related empirical finding cannot be easily explained. Future research could be conducted with a larger sample size to analyze whether an effect can be detected. Further, qualitative studies could be undertaken to explicitly examine the relevance that resources play in a corporation’s internationalization and market exploitation process. Finally, as discussed in Chapter 6.3, the developed decision-making process model of corporations’ internationalization and market exploitation strategies explains only 3.4% of the variance of the last process step, where a final decision about market exploitation strategies is made. In Chapter 6.3, potential explanations of this weak expression are attempted. Future studies could incorporate additional factors that may influence corporations’ final decisions about market exploitation strategies. This would further advance knowledge about corporations’ internationalization processes.

Previous work has called for implementation-oriented, empirical research based on an eclectic approach that integrates different theoretical strands to explain the internationalization processes of corporations (Canabal & White, 2008, p. 278; Hill et al., 1990; Morschett et al., 2008, p. 543). The developed decision-making process model for corporations’ internationalization and market exploitation strategies empowers corporations to identify markets that require local production facilities to be exploited effectively. The desire is that the developed decision-making process model will contribute to reducing the communication gap between academia and practice and that the model created will add value within corporations’ processes of internationalization and market exploitation. Consequently, it is hoped that the established model will support corporations to better position themselves within today’s globalizing world economy.

## 8. Bibliography

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## **Appendix 1: Questionnaire**

## Studie zu Internationalisierungs- und Markterschließungsstrategien

Sehr geehrte Damen und Herren,

im Rahmen meiner Promotion am Amadeus Center for Mobility Studies an der Zeppelin Universität untersuche ich **Internationalisierungs-** und **Marktentwicklungsstrategien** in der Automobilindustrie. Der Fokus meiner Dissertation liegt auf dem **Entscheidungsfindungsprozess**, der **Markterschließungsstrategien** zugrunde liegt. Ich konzentriere mich in dieser Arbeit auf die Erschließung von Märkten, die ein lokales Fertigungsengagement erfordern, um das Marktpotenzial ausschöpfen zu können.

Sie sind Experte, wenn es um das Thema Internationalisierung und Markterschließung in der Automobilindustrie geht. In Ihrer täglichen Arbeit praktizieren Sie Internationalisierung und gestalten die Prozesse rund um das Thema aktiv mit. Mein Ziel ist es, einen Marktentwicklungsprozess zu entwickeln, der nicht nur der Wissenschaft, sondern auch der Praxis einen Mehrwert stiften kann. Damit mir dies gelingen kann, benötige ich Ihre Unterstützung, Ihr Wissen und Ihre Expertise.

Ich würde mich daher sehr freuen, wenn Sie sich für die Bearbeitung des Fragebogens ca. 15 – 20 Minuten Zeit nehmen und diesen vollständig ausfüllen würden. Damit würden Sie nicht nur mir helfen, den Marktentwicklungsprozess genauer zu erforschen, Sie würden zudem den zahlreichen Akteuren in der sich immer stärker internationalisierenden Wirtschaft interessante Einblicke gewähren.

Ihre **Antworten werden anonymisiert** und **vertraulich behandelt**. Diese dienen ausschließlich der späteren statistischen Analyse.

Nachdem Sie den Fragebogen ausgefüllt haben, hole ich diesen gerne jederzeit bei Ihnen ab.

Schon jetzt möchte ich mich recht herzlich für Ihre Unterstützung bedanken.  
Vielen, vielen Dank dafür!

Anne Sosna

## I. Global Screening

Das Global Screening stellt die erste Phase innerhalb des Markterschließungsprozesses dar. Es ermöglicht, erste Aussagen darüber treffen zu können, ob lokale Fertigungsaktivitäten das Ausschöpfen von Marktpotenzialen positiv beeinflussen.

**Bitte bewerten Sie, ob folgende Aspekte entscheidend dafür sind, eine erste Potenzialeinschätzung anzustellen, ob ein Markt durch lokale Fertigungsaktivitäten erschlossen werden sollte. Bewerten Sie dazu bitte folgende Aussagen auf einer Skala von „Stimme überhaupt nicht zu“ bis „Stimme stark zu“.**

	Stimme über- haupt nicht zu	Stimme eher nicht zu	Stimme teil- weise zu und teil- weise nicht zu	Stimme eher zu	Stimme stark zu
Das Volumenpotenzial des Automobilmarktes eines Landes bestimmt wesentlich, ob Untersuchungen zu lokalen Fertigungsaktivitäten in einem Markt angestellt werden sollten.					
Hohe Zollabgaben, die den Import von Fertigfahrzeugen in internationale Märkte verteuern, sind ein wesentlicher Grund dafür, warum lokale Produktionsaktivitäten in Erwägung gezogen werden.					
Eine Potenzialuntersuchung von spezifischen Märkten sollte allerdings nur angestellt werden, wenn Fahrzeug-Teilesätze zu einem geringeren Zollsatz als Fertigfahrzeuge eingeführt werden können.					
Nichttarifäre Handelshemmnisse (z.B. Steuern oder Sonderabgaben), die beim Import von Fertigfahrzeugen anfallen, verteuern das Exportgeschäft und stellen somit einen Anreiz für lokale Produktionsaktivitäten dar.					
Länder, die über hohe nichttarifäre Handelshemmnisse (z.B. Steuern oder Sonderabgaben) verfügen, sollten auf Potenzial einer lokalen Fertigung untersucht werden.					
Die Zugehörigkeit zu Wirtschaftsgemeinschaften, wie z.B. dem ASEAN oder Mercosur, stellt ein Potenzial für lokale Fertigungsaktivitäten dar, da sich zusätzliches Absatzpotenzial ergeben könnte.					
Verfügt ein Land über Freihandelsabkommen mit Drittstaaten, könnten dadurch zusätzliche Absatzchancen generiert werden. Dies stellt ein Potenzial für lokale Fertigungsaktivitäten dar.					

	Stimme über- haupt nicht zu	Stimme eher nicht zu	Stimme teil- weise zu und teil- weise nicht zu	Stimme eher zu	Stimme stark zu
Marktspezifische Anforderungen, die an lokale Fertigungsaktivitäten gestellt werden (z.B. das Erfüllen einer spezifischen Fertigungstiefe oder das Erreichen eines gewissen lokalen Wertschöpfungsanteils) beeinflussen, ob Untersuchungen zu lokalen Fertigungsaktivitäten angestellt werden sollte.					

Nach Abschluss der ersten Prozessphase, dem Global Screening, gilt es zu entscheiden, ob marktspezifische, absatzorientierte Auslandsproduktionsaktivitäten detaillierter geprüft werden sollten.

**Bitte bewerten Sie dazu folgende Aussage auf einer Skala von „Stimme überhaupt nicht zu“ bis „Stimme stark zu“.**

	Stimme über- haupt nicht zu	Stimme eher nicht zu	Stimme teil- weise zu und teil- weise nicht zu	Stimme eher zu	Stimme stark zu
Sollte sich im Global Screening ergeben, dass ein Markt Potenzial für absatzorientierte Auslandsproduktionsaktivitäten aufweisen könnte, müssen in einem nächsten Prozessschritt landesspezifische Rahmenbedingungen analysiert werden.					

## II. Länderanalyse

Die Länderanalyse stellt die zweite Phase innerhalb des Markterschließungsprozesses dar. Diese ermöglicht es, marktspezifische Aussagen darüber treffen zu können, ob sich ein Potenzial für lokale Fertigungsaktivitäten ergibt.

**Bitte bewerten Sie, inwieweit folgende marktspezifische Rahmenbedingungen dafür ausschlaggebend sind, ob eine detaillierte Bewertung von lokalen Fertigungsaktivitäten in spezifischen Ländern angestoßen werden sollte.**

**Bitte berücksichtigen Sie erneut, dass es sich um lokale Fertigungsaktivitäten handelt, die darauf abzielen, Märkte zu erschließen und Marktpotenziale zu nutzen.**

**Bewerten Sie dazu bitte folgende Aussagen auf einer Skala von „Stimme stark zu“ bis „Stimme überhaupt nicht zu“.**

	Stimme stark zu	Stimme eher zu	Stimme teil- weise zu und teil- weise nicht zu	Stimme eher nicht zu	Stimme über- haupt nicht zu
Die wirtschaftliche Entwicklung eines Landes ist eine wichtige Orientierung, ob ein Land als Potenzialmarkt einzustufen ist, welcher genauer analysiert werden sollte.					
Die prognostizierte Entwicklung des Automobilmarktes ist ausschlaggebend dafür, ob ein Markt als Potenzialmarkt eingestuft und eine Analyse zur optimalen Erschließung des Marktes durchgeführt werden sollten.					
Die Höhe der Zollabgaben für den Import von Fertigfahrzeugen, sowie von Teilekomponenten, spielt eine wichtige Rolle, um das Potenzial einer lokalen Fertigung einschätzen zu können.					
Nichttarifäre Handelshemmnisse (z.B. Steuern oder Sonderabgaben), beeinflussen wesentlich, ob eine detaillierte Analyse zu lokalen Fertigungsaktivitäten in einem Land angestellt werden sollte.					
Die Zugehörigkeit zu Wirtschaftsgemeinschaften, wie z.B. dem ASEAN oder Mercosur, stellt ein Potenzial für lokale Fertigungsaktivitäten dar, da zusätzliche Absatzchancen generiert werden könnten. Auswirkungen der Wirtschaftsgemeinschaft sind daher detailliert zu prüfen.					
Verfügt ein Land über Freihandelsabkommen mit Drittstaaten könnten zusätzliche Absatzpotenziale generiert werden. Dies bietet Potenzial für lokale Fertigungsaktivitäten. Es bedarf einer detaillierten Analyse der Freihandelsabkommen.					

	Stimme stark zu	Stimme eher zu	Stimme teil- weise zu und teil- weise nicht zu	Stimme eher nicht zu	Stimme über- haupt nicht zu
Marktspezifische Anforderungen, die an lokale Fertigungsaktivitäten gestellt werden (z.B. das Erfüllen einer spezifischen Fertigungstiefe oder das Erreichen eines gewissen lokalen Wertschöpfungsanteils) sind ausschlaggebend dafür, ob eine differenzierte Untersuchung zu lokalen Fertigungsaktivitäten angestellt werden sollte. Diese Anforderungen müssen detailliert geprüft werden.					
Es ist erforderlich landesspezifische Informationen zu den aktuellen Produktionsaktivitäten der Automobilbranche einzuholen.					
Falls lokale Fertigungsaktivitäten, lokale Beschaffungsumfänge erfordern, ist es relevant Informationen zur Struktur der Zulieferindustrie einzuholen.					
Die Produktionsaktivitäten des Wettbewerbs müssen besonders detailliert analysiert werden.					

Das Ergebnis der Länderanalyse entscheidet, ob in einem dritten Prozessschritt eine detaillierte Analyse zu marktspezifischen, absatzorientierten Auslandsproduktionsaktivitäten angestellt werden soll. Diese berücksichtigt primär unternehmensinterne Faktoren.

**Bitte bewerten Sie dazu folgende Aussage auf einer Skala von „Stimme stark zu“ bis „Stimme überhaupt nicht zu“.**

	Stimme stark zu	Stimme eher zu	Stimme teil- weise zu und teil- weise nicht zu	Stimme eher nicht zu	Stimme über- haupt nicht zu
Sollte die Länderanalyse ergeben, dass ein Markt Potenzial für absatzorientierte Auslandsproduktionsaktivitäten aufweisen könnte, muss infolgedessen eine Machbarkeitsstudie zu lokalen Fertigungsaktivitäten in diesem Land durchgeführt werden.					

### III. Machbarkeitsstudie

In einer Machbarkeitsstudie wird eine detaillierte, marktspezifische Analyse zu lokalen Fertigungsaktivitäten angestellt. Vorteile, die sich aus lokalen Produktionsaktivitäten ergeben, werden den anfallenden Kosten gegenübergestellt. Eine Wirtschaftlichkeitsbewertung rundet die Machbarkeitsstudie ab und dient als Entscheidungsgrundlage, ob eine lokale Fertigung umgesetzt werden sollte.

**Bitte bewerten Sie die Relevanz folgender Positionen für die Erstellung einer detaillierten Analyse zu lokalen Fertigungsaktivitäten, welche als Entscheidungsgrundlage für ein lokales Fertigungsengagement in Potenzialmärkten dienen soll. Bewerten Sie dazu bitte folgende Aussagen auf einer Skala von „Stimme überhaupt nicht zu“ bis „Stimme stark zu“.**

	Stimme über- haupt nicht zu	Stimme eher nicht zu	Stimme teil- weise zu und teil- weise nicht zu	Stimme eher zu	Stimme stark zu
Die Vorteile, die sich durch ein lokales Fertigungsengagement ergeben, sei es beispielsweise durch Zoll- und/oder Steuervorteile, beeinflussen maßgeblich die Umsetzung von lokalen Fertigungsaktivitäten.					
Produktionskosten, die durch lokales Fertigungsengagement entstehen, stellen einen zentralen Kostenfaktor dar und beeinflussen damit maßgeblich die Wirtschaftlichkeit und somit die Umsetzung von lokalen Fertigungsaktivitäten.					
Logistikkosten stellen einen wesentlichen Kostenfaktor dar, der die Wirtschaftlichkeit und somit die Umsetzung von lokalen Fertigungsaktivitäten beeinflusst.					
Lokalisierungskosten, die durch die Beschaffung und Prüfung von lokalen Bauteilen und/oder lokalen Montagen entstehen, stellen einen wichtigen Kostenpunkt für die Wirtschaftlichkeitsbewertung dar.					
Um Fertigungsaktivitäten umsetzen zu können, bedarf es personeller und finanzieller Ressourcen. Diese sind ein wesentlicher Kostenfaktor und beeinflussen die Wirtschaftlichkeit von lokalen Fertigungen.					
Transaktionskosten, die z.B. durch einen erhöhten Koordinationsbedarf mit einem externen Fertigungspartner entstehen oder durch sinkende Motivation der Mitarbeiter, sofern diese z.B. Fertigungsaktivitäten vor Ort in Nigeria unterstützen müssten, spielen eine wichtige Rolle und sollten somit in der Machbarkeitsstudie berücksichtigt werden.					

#### IV. Entscheidung

Das Ergebnis der Machbarkeitsstudie, welche eine Wirtschaftlichkeitsbewertung beinhaltet, wird der Unternehmensleitung zur Entscheidung vorgelegt.

**Bitte bewerten Sie folgende Aussage auf einer Skala von „Stimme überhaupt nicht zu“ bis „Stimme stark zu“.**

	Stimme über- haupt nicht zu	Stimme eher nicht zu	Stimme teil- weise zu und teil- weise nicht zu	Stimme eher zu	Stimme stark zu
Zeigt sich nach Abschluss der Machbarkeitsstudie ein Potenzial für ein lokales Fertigungsengagement, sei es durch eine positive Wirtschaftlichkeitsbewertung oder aufgrund von strategischen Beweggründen, so sollte die Unternehmensleitung die Umsetzung von lokalen Fertigungsaktivitäten beauftragen.					

**Spielen für Sie weitere Einflussfaktoren und/oder Prozessschritte während des Entscheidungsfindungsprozesses zu lokalen Fertigungsaktivitäten eine Rolle, die nicht genannt wurden? Wenn ja, ergänzen Sie diese bitte hier:**

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**Vielen Dank, dass Sie sich Zeit genommen haben, diesen Fragebogen zu beantworten.  
Sie haben mir damit sehr geholfen!**



## **Appendix 2: Commented Questionnaire**

Commented questionnaire is attached to comprehend the adjustments that have been undertaken after the pre-tests have been conducted.

## Studie zu Internationalisierungs- und Markterschließungsstrategien

Sehr geehrte Damen und Herren,

im Rahmen meiner Promotion am Amadeus Center for Mobility Studies an der Zeppelin Universität untersuche ich **Internationalisierungs-** und **Marktentwicklungsstrategien** in der Automobilindustrie. Der Fokus meiner Dissertation liegt auf dem **Entscheidungsfindungsprozess**, der **Markterschließungsstrategien** zugrunde liegt. Ich konzentriere mich in dieser Arbeit auf die Erschließung von Märkten, die ein lokales Fertigungsengagement erfordern, um das Marktpotenzial ausschöpfen zu können.

Sie sind Experte, wenn es um das Thema Internationalisierung und Markterschließung in der Automobilindustrie geht. In Ihrer täglichen Arbeit praktizieren Sie Internationalisierung und gestalten die Prozesse rund um das Thema aktiv mit. Mein Ziel ist es, einen Marktentwicklungsprozess zu entwickeln, der nicht nur der Wissenschaft, sondern auch der Praxis einen Mehrwert stiften kann. Damit mir dies gelingen kann, benötige ich Ihre Unterstützung, Ihr Wissen und Ihre Expertise.

Ich würde mich daher sehr freuen, wenn Sie sich für die Bearbeitung des Fragebogens **ca. 15 – 20 Minuten Zeit** nehmen und diesen vollständig ausfüllen würden. Damit würden Sie nicht nur mir helfen, den Marktentwicklungsprozess genauer zu erforschen, Sie würden zudem den zahlreichen Akteuren in der sich immer stärker internationalisierenden Wirtschaft interessante Einblicke gewähren.

Ihre **Antworten werden anonymisiert und vertraulich behandelt**. Diese dienen ausschließlich der späteren statistischen Analyse.

Nachdem Sie den Fragebogen ausgefüllt haben, hole ich diesen gerne jederzeit bei Ihnen ab.

Schon jetzt möchte ich mich recht herzlich für Ihre Unterstützung bedanken.  
Vielen, vielen Dank dafür!

Anne Sosna

**Comment [1]:** The pre-test gave an indication of how much time respondents require to answer the questionnaire.

## I. Global Screening

Das Global Screening stellt die erste Phase innerhalb des Markterschließungsprozesses dar. Es ermöglicht, erste Aussagen darüber treffen zu können, ob lokale Fertigungsaktivitäten das Ausschöpfen von Marktpotenzialen positiv beeinflussen.

**Comment [2]:** Connecting passages have been introduced to better guide the respondent through the questionnaire.

Bitte bewerten Sie, ob folgende Aspekte entscheidend dafür sind, eine erste Potenzialeinschätzung anzustellen, ob ein Markt durch lokale Fertigungsaktivitäten erschlossen werden sollte. Bewerten Sie dazu bitte folgende Aussagen auf einer Skala von „Stimme überhaupt nicht zu“ bis „Stimme stark zu“.

	Stimme überhaupt nicht zu	Stimme eher nicht zu	Stimme teilweise zu und teilweise nicht zu	Stimme eher zu	Stimme stark zu
Das Volumenpotenzial des Automobilmarktes eines Landes bestimmt wesentlich, ob Untersuchungen zu lokalen Fertigungsaktivitäten in einem Markt angestellt werden sollten.					
Hohe Zollabgaben, die den Import von Fertigfahrzeugen in internationale Märkte verteuern, sind ein wesentlicher Grund dafür, warum lokale Produktionsaktivitäten in Erwägung gezogen werden.					
Eine Potenzialuntersuchung von spezifischen Märkten sollte allerdings nur angestellt werden, wenn Fahrzeug-Teilesätze zu einem geringeren Zollsatz als Fertigfahrzeuge eingeführt werden können.					
Nichttarifäre Handelshemmnisse (z.B. Steuern oder Sonderabgaben), die beim Import von Fertigfahrzeugen anfallen, verteuern das Exportgeschäft und stellen somit einen Anreiz für lokale Produktionsaktivitäten dar.					
Länder, die über hohe nichttarifäre Handelshemmnisse (z.B. Steuern oder Sonderabgaben) verfügen, sollten auf Potenzial einer lokalen Fertigung untersucht werden.					
Die Zugehörigkeit zu Wirtschaftsgemeinschaften, wie z.B. dem ASEAN oder Mercosur, stellt ein Potenzial für lokale Fertigungsaktivitäten dar, da sich zusätzliches Absatzpotenzial ergeben könnte.					
Verfügt ein Land über Freihandelsabkommen mit Drittstaaten, könnten dadurch zusätzliche Absatzchancen generiert werden. Dies stellt ein Potenzial für lokale Fertigungsaktivitäten dar.					

**Comment [3]:** Examples of non-tariff trade barriers have been listed to clarify the exact meaning of the term so as to ensure comprehensibility.

**Comment [4]:** Examples of non-tariff trade barriers have been listed to clarify the exact meaning of the term so as to ensure comprehensibility.

	Stimme über- haupt nicht zu	Stimme eher nicht zu	Stimme teil- weise zu und teil- weise nicht zu	Stimme eher zu	Stimme stark zu
Marktspezifische Anforderungen, die an lokale Fertigungsaktivitäten gestellt werden (z.B. das Erfüllen einer spezifischen Fertigungstiefe oder das Erreichen eines gewissen lokalen Wertschöpfungsanteils) beeinflussen, ob Untersuchungen zu lokalen Fertigungsaktivitäten angestellt werden sollte.					

**Comment [5]:** Examples of market-specific requirements have been added to clarify the exact meaning of the term so as to ensure comprehensibility.

Nach Abschluss der ersten Prozessphase, dem Global Screening, gilt es zu entscheiden, ob marktspezifische, absatzorientierte Auslandsproduktionsaktivitäten detaillierter geprüft werden sollten.

Bitte bewerten Sie dazu folgende Aussage auf einer Skala von „Stimme überhaupt nicht zu“ bis „Stimme stark zu“.

**Comment [6]:** Connecting passages have been introduced to better guide the respondent through the questionnaire.

	Stimme über- haupt nicht zu	Stimme eher nicht zu	Stimme teil- weise zu und teil- weise nicht zu	Stimme eher zu	Stimme stark zu
Sollte sich im Global Screening ergeben, dass ein Markt Potenzial für absatzorientierte Auslandsproduktionsaktivitäten aufweisen könnte, müssen in einem nächsten Prozessschritt landesspezifische Rahmenbedingungen analysiert werden.					

## II. Länderanalyse

Die Länderanalyse stellt die zweite Phase innerhalb des Markterschließungsprozesses dar. Diese ermöglicht es, marktspezifische Aussagen darüber treffen zu können, ob sich ein Potenzial für lokale Fertigungsaktivitäten ergibt.

**Comment [7]:** Connecting passages have been introduced to better guide the respondent through the questionnaire.

Bitte bewerten Sie, inwieweit folgende **marktspezifische Rahmenbedingungen** dafür ausschlaggebend sind, ob eine **detaillierte Bewertung von lokalen Fertigungsaktivitäten** in spezifischen Ländern angestoßen werden sollte.  
Bitte berücksichtigen Sie erneut, dass es sich um lokale Fertigungsaktivitäten handelt, die darauf abzielen, Märkte zu erschließen und Marktpotenziale zu nutzen.  
Bewerten Sie dazu bitte folgende Aussagen auf einer Skala von „Stimme stark zu“ bis „Stimme überhaupt nicht zu“.

	Stimme stark zu	Stimme eher zu	Stimme teilweise zu und teilweise nicht zu	Stimme eher nicht zu	Stimme überhaupt nicht zu
Die wirtschaftliche Entwicklung eines Landes ist eine wichtige Orientierung, ob ein Land als Potenzialmarkt einzustufen ist, welcher genauer analysiert werden sollte.					
Die prognostizierte Entwicklung des Automobilmarktes ist ausschlaggebend dafür, ob ein Markt als Potenzialmarkt eingestuft und eine Analyse zur optimalen Erschließung des Marktes durchgeführt werden sollten.					
Die Höhe der Zollabgaben für den Import von Fertigfahrzeugen, sowie von Teilekomponenten, spielt eine wichtige Rolle, um das Potenzial einer lokalen Fertigung einschätzen zu können.					
Nichttarifäre Handelshemmnisse (z.B. Steuern oder Sonderabgaben), beeinflussen wesentlich, ob eine detaillierte Analyse zu lokalen Fertigungsaktivitäten in einem Land angestellt werden sollte.					
Die Zugehörigkeit zu Wirtschaftsgemeinschaften, wie z.B. dem ASEAN oder Mercosur, stellt ein Potenzial für lokale Fertigungsaktivitäten dar, da zusätzliche Absatzchancen generiert werden könnten. Auswirkungen der Wirtschaftsgemeinschaft sind daher detailliert zu prüfen.					
Verfügt ein Land über Freihandelsabkommen mit Drittstaaten könnten zusätzliche Absatzpotenziale generiert werden. Dies bietet Potenzial für lokale Fertigungsaktivitäten. Es bedarf einer detaillierten Analyse der Freihandelsabkommen.					

**Comment [8]:** Examples of non-tariff trade barriers have been listed to clarify the exact meaning of the term so as to ensure comprehensibility.

	Stimme stark zu	Stimme eher zu	Stimme teil- weise zu und teil- weise nicht zu	Stimme eher nicht zu	Stimme über- haupt nicht zu
Marktspezifische Anforderungen, die an lokale Fertigungsaktivitäten gestellt werden (z.B. das Erfüllen einer spezifischen Fertigungstiefe oder das Erreichen eines gewissen lokalen Wertschöpfungsanteils) sind ausschlaggebend dafür, ob eine differenzierte Untersuchung zu lokalen Fertigungsaktivitäten angestellt werden sollte. Diese Anforderungen müssen detailliert geprüft werden.					
Es ist erforderlich landesspezifische Informationen zu den aktuellen Produktionsaktivitäten der Automobilbranche einzuholen.					
Falls lokale Fertigungsaktivitäten, lokale Beschaffungsumfänge erfordern, ist es relevant Informationen zur Struktur der Zulieferindustrie einzuholen.					
Die Produktionsaktivitäten des Wettbewerbs müssen besonders detailliert analysiert werden.					
Das Ergebnis der Länderanalyse entscheidet, ob in einem dritten Prozessschritt eine detaillierte Analyse zu marktspezifischen, absatzorientierten Auslandsproduktionsaktivitäten angestellt werden soll. Diese berücksichtigt primär unternehmensinterne Faktoren.					
Bitte bewerten Sie dazu folgende Aussage auf einer Skala von „Stimme stark zu“ bis „Stimme überhaupt nicht zu“.					
Sollte die Länderanalyse ergeben, dass ein Markt Potenzial für absatzorientierte Auslandsproduktionsaktivitäten aufweisen könnte, muss infolgedessen eine Machbarkeitsstudie zu lokalen Fertigungsaktivitäten in diesem Land durchgeführt werden.					

**Comment [9]:** Examples of market-specific requirements have been added to clarify the exact meaning of the term so as to ensure comprehensibility.

**Comment [10]:** This question has been included as a stand-alone question. The question about the necessity of considering the local supplier industry was previously part of the question, which asked whether it is necessary to consider country-specific local production activities.

**Comment [11]:** Since a new question about the necessity of considering the local supplier industry is included, the sequence of the questions has been adapted. Thus, the final questionnaire first covers the necessity of considering local production activities. Second, it reflects on the necessity of considering the local supplier industry. Third, it refers to the necessity of considering competitors' production activities.

**Comment [12]:** Connecting passages have been introduced to better guide the respondent through the questionnaire.

### III. Machbarkeitsstudie

In einer Machbarkeitsstudie wird eine detaillierte, marktspezifische Analyse zu lokalen Fertigungsaktivitäten angestellt. Vorteile, die sich aus lokalen Produktionsaktivitäten ergeben, werden den anfallenden Kosten gegenübergestellt. Eine Wirtschaftlichkeitsbewertung rundet die Machbarkeitsstudie ab und dient als Entscheidungsgrundlage, ob eine lokale Fertigung umgesetzt werden sollte.

**Comment [13]:** Connecting passages have been introduced to better guide the respondent through the questionnaire.

**Bitte bewerten Sie die Relevanz folgender Positionen für die Erstellung einer detaillierten Analyse zu lokalen Fertigungsaktivitäten, welche als Entscheidungsgrundlage für ein lokales Fertigungsengagement in Potenzialmärkten dienen soll.**

**Bewerten Sie dazu bitte folgende Aussagen auf einer Skala von „Stimme überhaupt nicht zu“ bis „Stimme stark zu“.**

	Stimme über- haupt nicht zu	Stimme eher nicht zu	Stimme teil- weise zu und teil- weise nicht zu	Stimme eher zu	Stimme stark zu
Die Vorteile, die sich durch ein lokales Fertigungsengagement ergeben, sei es beispielsweise durch Zoll- und/oder Steuervorteile, beeinflussen maßgeblich die Umsetzung von lokalen Fertigungsaktivitäten.					
Produktionskosten, die durch lokales Fertigungsengagement entstehen, stellen einen zentralen Kostenfaktor dar und beeinflussen damit maßgeblich die Wirtschaftlichkeit und somit die Umsetzung von lokalen Fertigungsaktivitäten.					
Logistikkosten stellen einen wesentlichen Kostenfaktor dar, der die Wirtschaftlichkeit und somit die Umsetzung von lokalen Fertigungsaktivitäten beeinflusst.					
Lokalisierungskosten, die durch die Beschaffung und Prüfung von lokalen Bauteilen und/oder lokalen Montagen entstehen, stellen einen wichtigen Kostenpunkt für die Wirtschaftlichkeitsbewertung dar.					
Um Fertigungsaktivitäten umsetzen zu können, bedarf es personeller und finanzieller Ressourcen. Diese sind ein wesentlicher Kostenfaktor und beeinflussen die Wirtschaftlichkeit von lokalen Fertigungen.					
Transaktionskosten, die z.B. durch einen erhöhten Koordinationsbedarf mit einem externen Fertigungspartner entstehen oder durch sinkende Motivation der Mitarbeiter, sofern diese z.B. Fertigungsaktivitäten vor Ort in Nigeria unterstützen müssten, spielen eine wichtige Rolle und sollten somit in der Machbarkeitsstudie berücksichtigt werden.					

**Comment [14]:** Examples of transaction costs have been included to clarify the meaning of the term.

#### IV. Entscheidung

Das Ergebnis der Machbarkeitsstudie, welche eine Wirtschaftlichkeitsbewertung beinhaltet, wird der Unternehmensleitung zur Entscheidung vorgelegt:

**Comment [15]:** Connecting passages have been introduced to better guide the respondent through the questionnaire.

Bitte bewerten Sie folgende Aussage auf einer Skala von „Stimme überhaupt nicht zu“ bis „Stimme stark zu“.

	Stimme über- haupt nicht zu	Stimme eher nicht zu	Stimme teil- weise zu und teil- weise nicht zu	Stimme eher zu	Stimme stark zu
Zeigt sich nach Abschluss der Machbarkeitsstudie ein Potenzial für ein lokales Fertigungsengagement, sei es durch eine positive Wirtschaftlichkeitsbewertung oder aufgrund von strategischen Beweggründen, so sollte die Unternehmensleitung die Umsetzung von lokalen Fertigungsaktivitäten beauftragen.					

Spielen für Sie weitere Einflussfaktoren und/oder Prozessschritte während des Entscheidungsfindungsprozesses zu lokalen Fertigungsaktivitäten eine Rolle, die nicht genannt wurden? Wenn ja, ergänzen Sie diese bitte hier:

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Vielen Dank, dass Sie sich Zeit genommen haben, diesen Fragebogen zu beantworten.  
Sie haben mir damit sehr geholfen!